

AUDIT REPORT 98-PP-003

ADMINISTRATION OF GOVERNMENT HOUSING

FEBRUARY 1998

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ABBREVIATIONS

A/FBO	Office of Foreign Buildings Operations
FAM	Foreign Affairs Manual
FMP	Bureau of Finance and Management Policy
GAO	General Accounting Office
ICASS	International Cooperative Administrative Support Service
NFATC	National Foreign Affairs Training Center
OIG	Office of Inspector General
REMS	Real Estate Management System
SMI	Strategic Management Initiative
TDY	Temporary Duty

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I. EXECUTIVE SUMMARY

Purpose

We reviewed the Department's overseas housing program to determine if the program was being carried out in accordance with applicable regulations and whether it was accomplishing program objectives. Our review focused on over-standard housing assignments and temporary duty (TDY) housing operations.

Background

The Foreign Services Building Act of 1926 authorizes the Department to provide government-owned or leased housing to its employees overseas. The Office of Foreign Buildings Operations (A/FBO) is the real property manager for all non-military, U.S. Government-held property overseas and directs the housing program.

In 1979, the Congress established an interagency housing program to ensure uniformity and equity in providing housing to Federal employees overseas. The Congress also sought to ensure coherent, cost effective management of the extensive, worldwide housing program. In response to this mandate, posts established interagency housing boards to implement housing policies and approve housing assignments. Boards operate under guidance from the posts' real property managers.

Critical elements of the housing program are space standards; guidance on when over-standard assignments are permitted; and cost objectives, which are aimed at holding down program cost. Also, the post housing profile has been a program component since a June 1991 program revision. Profiles, which posts develop and A/FBO approves, were designed to help housing boards stabilize housing inventories and, thereby,

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reduce housing and housing-related costs. A/FBO also allows posts to operate TDY housing. Surplus government-owned residences are the primary source of TDY housing, but A/FBO may authorize short-term leases if expected revenues cover all related expenses.

Results in Brief

Because of more liberal housing standards adopted in June 1991 and Department actions to encourage compliance with standards, a significant majority of the housing assignments we reviewed was within standard. Yet, one in five assignments at the nine posts visited was over-standard. This level is a significant improvement over that found by the General Accounting Office (GAO) in an earlier study, but it shows that more can be done.

Because of imprecise guidance and lack of documentation, post housing officers could not demonstrate and we could not determine the acceptability of many of these posts' 153 over-standard assignments under housing policy and program cost objectives. Guidance concerning deviations from housing standards and cost objectives was not sufficiently precise to make such determinations for many assignments. More importantly, the rationale for some assignments was not documented and, in many other instances, could not be verified because the housing and housing market conditions existing when the assignments were made could not be reconstructed.

Housing boards did not consider enforcing space standards and controlling costs to be their primary mission and had little or no incentive to hold down program costs. As a result, we found that (1) posts were not using housing profiles as intended to stabilize their housing inventories and reduce housing and housing-related costs, (2) the basis for some over-standard housing assignments was questionable, (3) two posts leased residences while government-owned properties remained vacant, (4) four posts incurred additional costs when

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they allowed employees to change residences in mid-tour for personal reasons, (5) three posts operated TDY housing without A/FBO approval, (6) six posts did not charge TDY housing occupants an appropriate rate, and (7) property managers at three posts did not provide a required annual housing program certification to their chiefs of mission. In addition, vague guidance on housing assignments and inaccurate or incomplete data in the Department's Real Estate Management System (REMS) hindered effective program oversight by A/FBO and post property managers.

Because the posts visited did not use their approved housing profiles as intended, they have not demonstrated whether the profile system can be effective in stabilizing housing inventories and controlling related costs.

Principal Findings

Management Improvements

A/FBO has taken numerous actions to address overseas housing problems. Specifically, A/FBO strengthened its property management role by forming a new Real Estate Division, developed new housing standards, introduced enforcement measures to improve accountability, improved the accuracy of REMS data, and installed an automated version of REMS at most posts. A questionnaire we distributed at nine posts showed that 82 percent of the respondents were satisfied with their housing assignments. The others generally expressed a desire for larger housing.

Employee Housing Assignments

Post housing boards assigned over-standard, and generally more costly, housing in 153, or 18 percent, of their assignments. Although this level is a significant improvement over the 31 percent level found in an earlier GAO review, we estimated that the eight posts that made over-standard housing assignments were paying \$289,000 more in lease costs,

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annually, than they would have paid if all assignments had been within standard. It should be noted, however, that a 100 percent compliance rate is not a realistic goal at some posts and this amount cannot be accurately projected to the Department's entire housing program. However, because it comes from a review of only 9 of the Department's 260 posts, it is a clear indication that potential exists for further cost reduction through greater adherence to standards and consideration of program cost objectives.

Over-standard assignments occurred for many reasons. Post housing boards, which have the primary responsibility for making housing assignments, did not consider enforcing space standards and controlling costs to be their primary mission. Rather, they generally provided a forum for individual agencies to assist their employees, and had little or no incentive to control costs. Board members generally lacked training, and Foreign Affairs Manual (FAM) guidance was vague. For example, FAM guidance does not define "personal requirements," which may justify additional space and cost, or tell boards how employees' demands or requests--which cannot reasonably be construed as personal requirements--should be considered in housing decisions. Because of (1) the vague guidance and (2) the inability to reconstruct the factors leading to individual assignment decisions and the conditions existing when the decisions were made, posts could not demonstrate, and we were not able to determine, the reasonableness of many assignments.

In addition, unnecessary costs resulted when two posts allowed government-owned residences to remain vacant while other residences were obtained on short-term leases. The posts spent about \$217,400 annually for these leases and about \$35,000 to refurbish the leased residences.

Increased housing costs also resulted when posts allowed employees to change residences for personal reasons during their tours of duty. Such moves usually required repainting

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and refurbishing of the initial residences and security upgrades and other make-ready efforts for the new residences. The average cost to paint an apartment was \$4,400 at one post.

Housing assignment problems existed even though post property managers are charged with (1) providing guidance to housing boards, (2) overseeing the housing program, and (3) certifying annually that the program complies with applicable policies. Guidance provided to housing boards was not always sufficient to ensure compliance with housing policy and, at three posts, the property managers did not comply with the annual certification requirement.

A/FBO's oversight of the housing program was not effective in ensuring that, or in determining the extent to which, (1) over-standard housing assignments to leased residences were consistent with space standards and cost policies and objectives, and (2) housing profiles were being used as intended. Questionable over-standard housing assignments were made in spite of the oversight role and responsibilities of A/FBO officials. Also, A/FBO's oversight mechanisms -- the post profile, the housing inventory in REMS, waivers, and area managers' visits -- were not effective in detecting questionable housing assignments, posts' failure to use profiles as intended, and housing boards' lack of consideration for cost.

Temporary Duty Housing

Although posts are required to seek prior A/FBO authorization before operating TDY housing, three posts operated TDY housing without A/FBO's knowledge or approval. Posts are also required to obtain A/FBO approval of TDY rates, and the rates are supposed to cover operating costs. However, six posts did not seek such approval and operated TDY housing at a loss. We estimated that, in 1 year, one post's rates did not cover over \$31,000 in operating costs. Other posts did not have sufficient information to determine either occupancy rates

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or TDY housing revenue. As with the employee housing problems cited above, neither post property manager nor A/FBO oversight brought these TDY housing conditions to light.

Recommendations	The major recommendations we are making call for A/FBO to (1) instruct post property managers to provide an orientation to new housing board members on their responsibilities related to housing space and cost, (2) clarify guidance in the FAM to give housing boards a better understanding of the relative importance of the various factors to be considered in assigning a residence, (3) reevaluate the housing profile system to determine if and how posts can use it to effectively manage their housing inventories, (4) issue additional guidance on post property managers' housing program certification requirements, and (5) improve its oversight of TDY housing.
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Department Comments	We submitted the draft report to A/FBO, the Bureau of Finance and Management Policy (FMP), the National Foreign Affairs Training Center (NFATC), and to Embassies Abidjan, Almaty, Bonn, Budapest, Buenos Aires, Copenhagen, London, Montevideo, and Santiago and their geographic bureaus. A/FBO agreed with the majority of the recommendations, but did not provide comments to recommendations 22, 23, and 25-28, as these are being coordinated with representatives of the International Cooperative Administrative Support Service (ICASS) program. These comments will be considered in the compliance process. We considered the comments received when preparing the final report and incorporated changes as appropriate. Comments received from A/FBO are contained in appendix B with Office of Inspector General (OIG) comments inserted in italics. FMP concurred with Recommendation 28 and will work with A/FBO concerning temporary duty housing rental proceeds. NFATC responded to Recommendation 5
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and agreed that a housing handbook could be included as a handout if it is developed. Embassies Budapest, Buenos Aires, Copenhagen, London, and Santiago responded to the draft report. Embassy Budapest's comments are included in their entirety in appendix E. Embassy Buenos Aires agreed with Recommendation 15 and stated that corrective action had been taken. Embassy Copenhagen stated that it is in full compliance with the FAM in regards to Recommendation 16. Embassy London stated that all of its TDY units are now authorized by A/FBO. Embassy Santiago's comments are included in their entirety in appendix I. All formal written comments are included in appendices B through I.

II. PURPOSE AND SCOPE

We reviewed the Department's overseas housing program to determine if it was being carried out in accordance with applicable regulations and whether it was accomplishing program objectives. Our primary review areas were over-standard housing assignments and TDY housing operations. We also identified specific actions taken by the Department to address previously identified housing program problems.

We performed work at A/FBO and the Bureaus of European and Canadian Affairs, African Affairs, Inter-American Affairs, East Asian and Pacific Affairs, and Near Eastern Affairs. Fieldwork was conducted at the U.S. Embassies in Buenos Aires, Montevideo, London, Santiago, Budapest, Copenhagen, Abidjan, Bonn, and Almaty. To accomplish our objectives, we

- reviewed (1) applicable statutes and regulations, (2) relevant A/FBO policies and operating procedures, (3) pertinent GAO and OIG reports, (4) selected reports from REMS, (5) A/FBO files on the review and approval of post housing profiles, (6) A/FBO and post files on waiver requests seeking relief from the \$25,000 annual limit on lease costs or space standards, (7) relevant A/FBO and post documentation supporting decisions to lease residences, and (8) post housing files, including housing board minutes, post property manager certifications, and housing office files;
- interviewed key personnel;
- examined the accuracy of the square footage figures and descriptions of residences in the REMS system;
- examined housing boards' minutes to determine adherence to Department policies; and
- administered a questionnaire to post personnel concerning their knowledge of and satisfaction with the housing program.

We also assessed significant internal controls with respect to the management of residences overseas. Because of the limited scope of the audit, we have no opinion on the overall adequacy of the internal controls beyond the weaknesses identified in the "Findings" section of this report.

The audit was performed by the OIG's Office of Audits, Property Management and Procurement Division. Audit work, which was suspended several times because of other higher priority work and uncontrollable events, was initially conducted at overseas posts

between June 1994 and May 1995 and was updated at A/FBO and FMP from November 1995 to February 1996, in August and September 1996, and again in December 1996. Major contributors to this report were Jerry Huffman, division director; Howard Goldman, audit manager; Alma Wolfe, senior auditor; and Pamela Mingey and Jacqueline Murnaghan, auditors.

This audit was performed in accordance with generally accepted government auditing standards and included appropriate tests of internal controls to the extent necessary to satisfy the objectives of the audit.

III. BACKGROUND

The State Department, under the authority of the Foreign Services Building Act of 1926, has the authority to provide free housing to officers and employees (22 U.S.C. 291). The objective of the Department's current housing program is "to provide safe and secure housing that adequately meets personal and professional requirements at a cost most advantageous to the U.S. Government." Adequate housing is defined as that "comparable to what an employee would occupy in the Washington metropolitan area," with adjustments for family size and locality. Housing can be government-owned or leased. Responsibility for managing housing is assigned to A/FBO as the U.S. Government's real property manager for non-military U.S. Government-held property overseas.

In 1979, Congress mandated the establishment of an interagency housing program to ensure uniformity and equity in providing housing to employees of Federal agencies and gave A/FBO primary responsibility for ensuring coherent, cost effective management of this extensive worldwide program (6 FAM 721.1(b)). (The FAM citations in the report reflect the current FAM numbering system rather than the numbering system at the time the fieldwork was performed.) A/FBO is responsible for establishing, implementing, and overseeing policies and procedures governing the program.

Past GAO and OIG reviews have identified significant problems in the Department's management of overseas housing. In recent years, the Department has undertaken several major actions to address these problems, including a revision to housing policy that changed the structure of housing standards. The policy was revised and distributed in State Airgram 171 dated June 1991, and incorporated into 6 FAM 720 on November 23, 1992.

The basic features of the revised housing program include (1) housing profiles developed by posts and approved by A/FBO; (2) space standards based on post location, employee rank, and family size; (3) housing assignment decisions by a post interagency housing board; (4) a post real property manager (referred to as the post single real property manager), who serves as a non-voting, ex-officio board member as the post authority on all housing issues and certifies annually that the housing acquired and assigned during the year was in compliance with all regulations, policies, and procedures; and (5) waivers by A/FBO for space standards and annual cost ceilings for individual residences.

According to housing policy, housing is to be assigned based on the employee's position (defined as standard, middle, or executive level, depending on the employee's foreign service, civil service, or military grade) and family size--one or two (1/2), three or four (3/4), five or six (5/6) or seven or more (7+), including the employee. In addition, a locality index, consisting of locality levels 1, 2, and 3, was established, with levels 2 and 3 each allowing a 10 percent space increase over the preceding level. The locality level is determined by a number of factors, such as opportunities for cultural and recreational activities, climate, security (both

in terms of terrorism and crime), and isolation. As an example, the following chart shows the maximum space (net allowable square feet) for a locality level 1 post:

Level	Number of Occupants			
	1 or 2	3 or 4	5 or 6	7 or more
Executive	1,700	2,146	2,465	2,592
Middle	1,296	1,870	2,188	2,316
Standard	1,168	1,700	1,976	2,103

As a further illustration, the maximum space for a mid-level officer with three dependents at a locality level 1 post would be 1,870 square feet. (See appendix A for a complete listing of space standards.)

Housing boards were established to ensure that employees receive fair and equitable treatment under the housing standards. The boards consist of personnel at various grade levels from different agencies at post representing both single and married employees. The senior administrative officer at post serves as the post real property manager. Housing boards should apply their members' collective judgment to assign housing that best meets the overall government interest, post needs, and employees' needs. Boards document their decisions in written minutes, which are to be retained for 3 years.

Posts are required to develop housing profiles and submit them to A/FBO for approval. A profile captures future, expected housing needs based on an assessment of historical and projected staffing levels and demographics, including family size. For example, a post's profile might include 18 standard 3/4 residences--meaning that the post expects it will need 18 residences to accommodate standard grade employees (GS-5 to GS-12 and FS-9 to FS-3) with 3 or 4 family members. The objectives of the profile system are to (1) establish a stable housing inventory that meets long-term post requirements by retaining residences longer to provide protection against spiralling lease costs, (2) allow for amortization of the expensive make-ready costs and security upgrades, (3) facilitate the retention of residences in limited housing markets, and (4) allow the post flexibility in assigning housing already in the profile to employees with various ranks and family sizes even though that housing may be "over-standard" for those specific occupants. Adhering to profiles can save money in related housing costs, including make-ready expenses, security upgrades, and beneficial lease terms, among others. In order to achieve this objective, residences under lease are to be retained, if possible, for 5 years or longer. A/FBO monitors the housing profiles through its automated data system, REMS. Posts are to update their profiles when significant staffing changes occur, and profiles are to be reviewed every

2 years by A/FBO, in consultation with post management to determine if adjustments are necessary.

As part of its housing program oversight efforts, A/FBO instituted a waiver process. Under the authority of 6 FAM 735, A/FBO has implemented procedures requiring posts to obtain its approval for leases that exceed \$25,000 annually or exceed authorized square footage. As described later in this report, a pilot program is underway that is considering increasing the \$25,000 ceiling at selected posts.

A/FBO's area management officers serve as the primary contact with overseas posts for planning and managing A/FBO post support and coordination. One of the duties of area management officers is to visit posts at least once every 2 years to inspect overseas facilities and projects and to advise the post on real property matters.

Posts also operate TDY housing for transients. If authorized by A/FBO, government-owned or long-term leased housing may be designated as TDY housing provided it is excess to the post's housing needs or unsuitable for permanent housing or other official use. A/FBO may also authorize short-term leases for TDY housing provided the revenues generated can cover all related expenses.

IV. FINDINGS

Although the Department has made progress in addressing problems with its housing program and overseas posts have improved their compliance with housing standards and requirements, additional improvements are needed. We found that the percentage of employees living in over-standard housing at the nine posts visited was 18 percent--a significant improvement over the 31 percent found by GAO in an earlier study. Yet this percentage and the additional lease costs being paid for over-standard housing indicate that potential exists for improvement and cost reduction. Additionally, government-owned housing was allowed to remain vacant at two posts, while the posts leased other residences at an annual cost of about \$217,400; and the Department incurred costs for painting and make-ready efforts when employees moved in mid-tour for personal reasons. We also found that TDY housing was not managed properly. Posts (1) operated TDY housing without A/FBO approval, (2) did not obtain A/FBO approval of their TDY housing rates, (3) charged rates that were lower than required by the FAM, and (4) did not account for or manage TDY housing revenues and expenses in accordance with housing policy.

Housing program policies and procedures designed to lower the incidence of over-standard housing assignments and hold down program costs were not always followed for a variety of reasons. These reasons include weaknesses in posts' controls, such as not using the housing profile system as intended; inadequate consideration of cost in housing board decisions; vague FAM guidance; and conflicting or unclear roles and responsibilities for post housing boards and property managers. A/FBO's oversight of post housing operations was adversely affected by limitations of the REMS system and the lack of review of important housing issues during area manager visits. A/FBO was similarly not fully aware of TDY housing problems.

A. IMPROVEMENTS IN THE OVERSEAS HOUSING PROGRAM

A/FBO has taken a number of actions to correct problems reported in GAO and OIG reports, such as initiating improvements to strengthen its property management role, revising housing standards, introducing enforcement measures to strengthen accountability, increasing REMS availability and improving its accuracy, and centralizing the files for posts' waiver request for housing cost or space. A/FBO also implemented a pilot program to determine whether authority should be given to posts to approve annual lease costs in excess of \$25,000. Based on the results of a questionnaire we distributed at posts, 82 percent of the employees were pleased with their housing assignments.

Initiatives to Strengthen the Property Management Role

As a result of reports showing significant management weaknesses in the overseas housing program, the Department assigned A/FBO primary responsibility for managing the

program, thus centralizing authority and providing leadership for the housing program. A/FBO then established the Real Estate Division to improve management of the Department's extensive real property assets. The role of this division has expanded to include a full spectrum of professional real estate management activities. A/FBO also assumed responsibility for and funding control of the Department's short-term lease program.

Revised Housing Program

The housing program, as revised in 1991, was, in part, an attempt to improve housing management by establishing maximum net space standards based on an employee's position and family size and on post conditions. The post real property manager is to guide the post housing board in accordance with the revised housing program implemented by the FAM. In an attempt to ensure equity in post housing decisions, the board includes a member who represents each agency participating in the housing pool. Some members represent more than one agency.

Posts are required to develop housing profiles, which are intended to establish a stable housing inventory. A stable inventory, obtained by retaining leased residences for longer periods, will protect against spiralling lease costs and help reduce make-ready and security upgrade costs.

Improved Accountability

Enforcement measures have been added to strengthen accountability. These measures, as implemented by 6 FAM 721, require the post real property manager to certify annually to the chief of mission that leases were acquired or renewed and housing assignments were made in compliance with the regulations. Also, as a part of the internal controls certification for the Federal Managers' Financial Integrity Act submitted to the Secretary, the chief of mission must certify whether the housing program is in compliance with the policies and procedures in 6 FAM 700 (31 U.S.C. 3512).

Scheduled visits from A/FBO area managers have also improved the accountability of housing policies. Area managers visit posts periodically to respond to needs, monitor activities, and ensure that staffs understand and comply with Department policies and procedures. Area managers selectively reviewed the size and measurements of residences to ensure that the REMS data were correct.

REMS Improvements

In 1989, the automated version of REMS had been installed at only 24 posts. As of February 1997, 218 of the 260 posts had received automated REMS and were providing automated data to A/FBO. These 218 posts account for about 75 percent of the total number of properties. A/FBO officials have also developed a personal computer version of REMS for posts to use. In addition to completing the distribution of REMS, A/FBO tried to correct data errors and to use the system as a management tool; for example, A/FBO uses REMS data when analyzing requests to waive the space standards to acquire new residences.

Waiver Process

A/FBO has implemented procedures under the authority of 6 FAM 735 under which it approves leases that exceed an annual cost of \$25,000 or the authorized square footage. In an audit report issued in 1989, *Management of Overseas Real Property Needs Improvement* (NSIAD 89-116), GAO found that documentation justifying the leasing of over-standard housing was not available because of a lack of centralized records, and the lease files at post did not contain the waiver approvals. Since that audit, A/FBO has established a central file for waiver requests and approvals. In addition, the A/FBO and post lease files we reviewed contained the history of such waiver requests and approvals/denials.

Pilot Project

In 1991, Congress raised the limit on posts' authority to sign leases without A/FBO approval from \$25,000 to \$50,000 each year. However, A/FBO has the authority to continue the limit at \$25,000 and, in fact, determined that the \$25,000 ceiling was reasonable and adequate for most posts. In February 1994, A/FBO implemented a pilot project at 14 posts to study the feasibility and impact of raising the ceiling. Some posts, such as London, had their ceilings raised to \$50,000; other posts were assigned ceilings between \$25,000 and \$50,000. A/FBO has not completed its evaluation of the pilot project.

Employee Satisfaction

The revised 1991 housing program eliminated representational housing, changed the structure of housing standards, and increased authorized housing space that could be assigned to all employees. We distributed a questionnaire to American employees housed at the nine posts visited to determine, among other issues, if they were satisfied with the new space standards. Eighty-two percent of the respondents said they had adequate space considering their position and family size. We have no comparable data, however, from which to determine whether, and if so, how much, the current level of satisfaction is an improvement.

B. HOUSING PROGRAM OBJECTIVES, STANDARDS, AND COSTS

As stated in the preceding section, A/FBO has undertaken numerous actions to improve the Department's housing program, including adopting more generous housing standards that more closely reflect employees' housing in the Washington, D.C., area. Although the total effect on either over-standard housing or program cost is not known, these actions should reduce housing costs and the incidence of over-standard housing, and seem to be doing so. An over-standard residence is one that contains net square footage that is greater than the applicable space standard specified in 6 FAM 724.7 for the occupant's position and family size. The incidence of over-standard housing at the nine posts we visited (18 percent) was considerably lower than GAO found (31 percent) at eight posts it reported on in 1989.

Eight of nine posts we visited had made over-standard housing assignments and, as a result, paid about \$289,000 more in annual short-term lease costs than they would have paid if all assignments had been within standard. These 9 posts represent only 3.5 percent of the Department's 260 overseas posts. Although 100 percent within-standard housing is not realistically achievable at some posts and the \$289,000 is not statistically projectable to the Department's entire housing program, this amount indicates that the additional costs being paid for over-standard housing, worldwide, is an area warranting continued attention for cost reduction efforts.

Over-standard assignments resulted, in part, because housing program policies and procedures designed to lower the incidence of over-standard housing and hold down program costs were not always followed. These policies and procedures call for (1) making within-standard housing assignments to the extent feasible, (2) establishing and implementing a housing profile system to stabilize the posts' housing inventories and hold down housing and ancillary costs, and (3) giving major consideration to cost, as well as to space standards, in making housing decisions. Housing office staff had not implemented the housing profile system as intended because they found it to be complex and difficult to understand. As a result, it is not known for the posts visited whether the profile system can be effective in accomplishing its objectives.

Specific reasons cited for over-standard housing assignments, which include apparently valid reasons and questionable reasons, included: (1) employees' professional or personal requirements permit additional space; (2) housing boards acquiesced to employees' demands or requests, which--in our opinion--sometimes went beyond the intended meaning of personal requirements; (3) at the time individual assignments were made, over-standard housing was available in the post's housing inventory but suitably-sized housing was not; and (4) posts used outdated standards or misinterpreted the revised housing standards. Further, we found that housing board members (1) did not give cost the degree of consideration called for by housing policy and, in fact, had little, or no, incentive to hold down housing costs, and (2) sometimes allowed employees to reject their initial housing assignments and assigned them

to more expensive housing. Finally, housing guidance was imprecise, and post property manager and A/FBO oversight was insufficient.

While some of the individual over-standard assignments appeared to be clearly justified, such as for professional or personal requirements, the reasonableness of other assignments could not be easily or conclusively determined in many instances. This occurred because (1) the rationale for some assignments was not known or appeared to be incomplete, (2) guidance permitting over-standard assignments was imprecise, and (3) the rationale for some assignments could not be verified because conditions related to the housing inventory, the housing profile, and the local housing market that existed when the decisions were made had not been documented and could not be accurately reconstructed.

Factors that we believe allowed or caused posts' housing boards to make questionable, or even unwarranted, over-standard assignments and to give little, if any, consideration to cost in their deliberations included (1) unclear policy guidance on what constitutes employees' "personal requirements," (2) overlapping and unclear roles and responsibilities for post housing boards, housing officers, and property managers and A/FBO officials, and (3) little or no incentive for housing boards or individual housing board members to hold down program costs because they had no accountability for the cost implications of their decisions. Housing board members frequently became advocates for the employees or agencies they represented. In addition, post and A/FBO officials' oversight activities were of questionable effectiveness in that they did not prevent or surface the extent of questionable over-standard assignments, housing boards' lack of attention to cost, or posts' failures to use housing profiles as intended.

We did not determine the extent to which cost was considered in assigning housing that was within standard. However, based on the practices that were followed in assigning over-standard housing, cost reduction might also result from greater consideration of cost in these decisions as well.

Apart from leased housing, we found that four posts had a total of 14 government-owned residences that seemed to be larger than needed. A/FBO should review large government-owned residences to see if they should be retained. If not, posts should be directed to sell them, if or when local conditions and other relevant considerations make such sales economically favorable. Funds generated in this manner could be used to procure more cost-effective housing or for other housing purposes.

Over-standard housing assignments and housing costs are, therefore, still areas of concern and potential improvement. Further reductions are possible and can be achieved through improved asset management and better definition of and adherence to Department policy. Better definition of roles and responsibilities, including housing board and post officials' accountability, are necessary. Better guidance on how posts' housing boards and

officials should consider the various factors involved in housing decisions, including employees' demands or requests and cost considerations are also necessary.

In addition to over-standard assignments, posts' housing boards (1) allowed suitable government-owned residences at two posts to remain vacant while other residences were leased and (2) permitted employees at four posts to change residences in mid-tour for personal, and sometimes questionable, reasons. These decisions resulted in additional lease and make-ready costs. Even though the employees were sometimes required to pay some costs related to the moves, such as transportation, posts incurred additional costs to make the vacated residence available for new occupants. Housing boards could hold down make-ready costs by considering additional expenses when deliberating on mid-tour moves. Depending on the extent of mid-tour moves at other posts, greater attention to cost in this area could result in cost reductions. As with housing standards, however, housing boards need more definitive guidance on how to make such decisions, and post and A/FBO officials need better oversight to identify questionable practices.

Over-standard Housing Assignments

Over-standard housing assignments to short-term, leased properties caused eight of the nine posts visited to pay about \$289,000 more, annually, than they would have paid if within-standard assignments had been made. However, due to many factors, posts can not realistically expect to make all assignments within standard. Among these factors are the actual housing that is available in the local market and the Department and post goal of retaining a stable inventory of residences--a goal which can periodically result in posts having housing that is larger than needed for actual staffing on board.

During our review, we found that over-standard assignments resulted for several reasons, including employees' professional or personal requirements warranted additional space, housing boards acquiesced to employee demands or requests, suitably-sized residences were unavailable in posts' housing inventories but over-sized residences were available, and guidance was imprecise. Although not all over-standard assignments can be eliminated, the potential for cost reduction seems to be significant.

History of Over-Standard Housing

In April 1989, GAO reported that overseas posts regularly assigned residences that exceeded the Department's space standards. At that time, GAO found that 253 of 804 residences reviewed at eight posts, or 31 percent, exceeded space standards. The report concluded that housing costs were higher than necessary because staff was provided larger, more costly residences than called for by the standards.

In July 1993, GAO reported on the results of a questionnaire it sent to overseas posts. Of the 80 posts responding, 88 percent reported that some residences at their embassies exceeded the space standards, and 61 percent reported that 10 percent or more of the residences exceeded the space standards. This summary did not, however, develop the percentage of assignments that were over-standard, so a direct comparison cannot be made with either GAO's earlier review or our review. Respondents cited attractive terms on unexpired leases, conditions in the local housing market, and security concerns as reasons for not complying with the standards.

The percentages of over-standard housing developed in GAO's review and our audit are not fully comparable because the standards were different during the two periods covered. Buenos Aires was the only post included in both audits. In 1989, over-standard housing at Buenos Aires totaled 54.5 percent, based on the previous standards. At the time of our review, it totaled 21 percent, based on the current standards.

How Housing Assignments Should Be Made

A post housing board is established by, and operates under the authority of, the chief of mission. It is primarily responsible for implementing and enforcing housing policies in compliance with the standards and guidelines in 6 FAM 720. A/FBO views the housing boards as being in the best position to administer the overseas housing program. Board members are supposed to obtain guidance and oversight from the post property manager. As stated previously, this individual serves on the board as a non-voting, ex-officio member and is responsible to the chief of mission.

One of the housing boards' most important functions is to assign housing to employees. Housing policy calls for employees to be housed within standards to the extent practical and for holding down housing costs. According to 6 FAM 722.2, the board is to assign housing in a fashion that best meets the overall interests of the government, the needs of the post, and the professional and personal requirements of the employee. Furthermore, sections 721 and 727.3-3 of 6 FAM state that post management and the post housing board must seek suitable housing at a cost most advantageous to the government. The guidance also states that post housing boards are supposed to make housing assignments that are within the intent of government regulations and that can be logically defended as being in the best interests of the government.

Housing policy in the FAM (6 FAM 727.3) includes the following guidance on how space and cost should be considered in making housing assignments:

- The space standards are maximum amounts that can be assigned under normal circumstances. They are not absolute entitlements.

- Space should be the first criterion applied to the selection of properties for the overseas housing program. However, space is not the overriding factor in this process, particularly in markets where there is limited availability of housing or other restrictions seriously limit where employees may live. Ultimately, cost will be a major consideration in this process.
- Combined with size criteria, cost factors are a prime consideration in the selection of housing.
- In applying these guidelines, post management and the post housing board must seek suitable housing at the lowest possible cost to the government. All locations within reasonable commuting time that meet security criteria should be considered.

Although housing policy does not define "personal requirement," it provides examples that involve needs resulting because of the age or health of dependents. These examples suggest that over-standard housing should rarely be allowed, if within-standard housing is available. Moreover, although employee demands or requests (that do not constitute a personal requirement) can and should be considered in searching for suitable housing, they are not reasonable justification for assigning an employee to a more expensive residence, if lower cost housing is available that meets the employees' personal and professional requirements.

In arriving at recommendations for housing assignments, the staff of the post housing officer, who generally works for the post property manager, usually collects information on (1) outgoing employees' projected departure dates to identify housing that will soon be vacant and (2) each incoming employee's expected arrival date, rank, family size, special needs, hobbies, and any other relevant information that would influence the choice of a residence. With this knowledge and knowledge of the post's housing profile, its current housing inventory, and the local housing market, the housing officer recommends housing assignments to the post housing board.

The housing board reviews the housing officer's recommendations. Using the collective knowledge and experience of its members, the board is supposed to approve housing that matches the employees personal and professional requirements, while (1) staying within the approved profile to the extent possible, (2) minimizing the use of over-standard housing, both government-owned and short-term leased, and (3) holding down housing costs. When suitable housing is not available upon the employee's arrival at post, effective management also calls for consideration of costs related to vacant housing and temporary lodging. Typically, the board either approves the recommendation of the housing

officer or agrees to a search for alternative housing. The latter usually occurs only if an employee or his/her agency objects to the housing officer's initial recommendation.

The FAM provides leeway to posts and housing boards in making housing assignments. For example (as explained in more detail in the section on housing profiles), 6 FAM 723.3 allows posts to assign over-standard housing to an employee as long as the approved and fully implemented housing profile is maintained. The rationale for this policy is that it may be more cost-effective in the long run to assign an incoming employee to an over-standard residence than to acquire a new within-standard residence. In addition, 6 FAM 735.2 allows posts to obtain over-standard residences that are not in the approved profile if the post submits and A/FBO approves a space waiver. This regulation is geared toward situations where the only available housing exceeds the employee's space limitation.

Current Over-Standard Housing Assignments

Based on the 6 FAM definition of over-standard housing, 153 (or 18 percent) of the 857 housing assignments at the 9 posts visited exceeded the space standards applicable to their occupants. Excluding Montevideo, which had no over-standard assignments, the over-standard assignments ranged from 9 percent in London to 38 percent in Budapest, as shown in the following table, and included assignments to both government-owned and short-term leased residences.

Post	Number of Assigned Residences	Number of Over-Standard Residences	Percent
Abidjan	106	31	29
Almaty	25	4	16
Bonn	260	33	13
Budapest	61	23	38
Buenos Aires	82	17	21
Copenhagen	45	14	31
London	182	16	9
Montevideo	35	0	0
Santiago	61	15	25
Total	857	153	18

Of the 153 over-standard assignments, 55 were to residences that were government-owned. The remaining 98 assignments were to short-term leased residences, for which the posts had obtained A/FBO space waivers for 18. As described in a later section on the profile system, waivers should have been obtained for all of these assignments.

Because overseas leased residential real property consists of about 9,873 residences, costing about \$120 million annually for FYs 1996-98, eliminating unnecessary over-standard housing assignments could result in significant savings. At the nine posts visited, the estimated annual additional cost for over-standard assignments to short-term leased properties was about \$289,000 (determined by calculating the difference between actual over-standard housing lease costs and the average lease costs paid for within-standard housing). Although achievement of 100 percent within-standard housing assignments is not a realistic goal at some posts and the \$289,000 is not statistically projectable to the Department's entire housing program, this amount, which was from 9 of 260 overseas posts, indicates that potential exists for further improvement and cost reduction.

Reasons for Over-Standard Housing Assignments

Posts' housing boards assigned employees to over-standard housing for a variety of often inter-related reasons. While some reasons appeared reasonable and others were questionable, the rationales for still others either could not be determined because they were not documented or documentation was incomplete or officials at post could not provide a complete explanation.

In addition many of the rationales could not be verified because (1) guidance on when employees may be given additional space beyond applicable standards was not precise and (2) the conditions that existed at the time the assignment was made (such as the available housing in the post's inventory, available housing that could have been leased, and the status of post housing versus its approved housing profile) could not be reconstructed.

The following sections present the broad categories of reasons for over-standard assignments. They include specific examples of assignments that seemed to be either reasonable or questionable and of assignments whose rationale could not be verified.

Personal or Professional Requirements

The FAM states that post housing boards are the best vehicle to administer the housing policy and that boards are to approve housing assignments exercising their members' best collective judgment. The boards should seek to reconcile employees' housing requirements with the intent of the regulations. Specifically, the boards are to assign housing in a fashion that best meets the overall interests of the U.S. Government, the needs of the posts, and the personal and professional requirements of the employees. Also, sections 721

and 727.3-3 of the 6 FAM state that post management and the boards must seek suitable housing at a cost most advantageous to the government.

Posts' housing boards must interpret and implement the intent expressed in the FAM. However, the posts visited generally placed personal and professional requirements as their first priority, and gave little, if any, consideration to "the most advantageous cost to the government." For example:

- Embassy Santiago allowed a cultural affairs officer to reject an initially assigned residence because of a parking and representational problem. Specifically, the officer felt that she could not entertain at an apartment that lacked street parking. An alternative--restaurant entertainment--was perceived by the officer as difficult because, as a woman, she would not be able to pick up the check in a restaurant. The replacement residence, assigned from the post's inventory, was 442 square feet larger than the applicable standard.
- Embassy Santiago allowed a new employee to reject two apartments in the city because of allergies to dust. The employee claimed that the first apartment was in a smoggy area and was old, worn, and depressing and that the second apartment was smoggy, near new construction with cement dust, and noisy. The board allowed the employee to look outside the housing pool and select a house that was about 120 square feet larger than the applicable standard.
- Embassy Copenhagen dropped a house from its inventory and leased a house that was 372 square feet over the employee's applicable standard. The employee wished to entertain frequently and did not drive. The new residence was better suited to entertaining and was closer to the embassy than the house that was dropped.

In addition, section 724.5-2 provides that the senior representatives of foreign affairs agencies at post are to occupy residences that are within the standards for a family of four at the grade tier corresponding to the position. At four posts, however, such individuals were housed in residences dedicated to their positions, which were larger than called for in the housing policy. For example:

- Embassy Buenos Aires housed the senior representative of one agency, who was entitled to executive 3/4, dedicated housing, in a residence that was over 300 square feet larger than the standard. The post had obtained the residence, along with several other apartments, before the housing policy was revised in 1991. They were purchased because the price was considered good for the size and location of the apartments. The post also housed a senior representative, whose

applicable standard was middle 3/4 housing, in an executive 7+ government-owned house, that was over 4,000 square feet larger than the applicable standard.

- Embassy Copenhagen requested a waiver for a head of agency, and A/FBO initially denied the request because the residence was not in the profile and it was over both the size standards and cost limits. After remeasuring, the post submitted a second waiver request and it was approved. The employee, whose applicable standard was middle 3/4 housing, was housed at an additional annual cost of about \$12,400 in a residence that was about 200 square feet larger than the applicable standard.
- Embassy Abidjan housed four employees in their predecessors' residences, although all four were over the applicable standards. Two of the employees were heads of agency and were assigned to housing informally dedicated by the post (although these positions do not qualify as dedicated houses per 6 FAM 728.2.)

Employee Demands or Requests

Beyond over-standard housing assignments that appear to have been based on legitimate personal and professional requirements, many over-standard assignments approved by housing board members and post and A/FBO officials were based on employees' demands or requests that either did not seem to be personal or professional requirements or, at best, were questionable. For example, at Embassies London and Santiago, employee demands or requests were considered paramount by the boards. The boards gave little, if any, consideration to cost. The rationale expressed by one board was that to consider the housing regulations as overriding the "needs" of the individual was bureaucratic. This attitude was symbolized by a note from a departing housing board chairperson who urged members "...to think humanistically and not bureaucratically when assigning property, the next assignment could be yours."

Post officials went along--sometimes reluctantly--with housing board decisions that were based on employees' demands or requests, even though they generally involved over-standard housing or increased costs. Examples of over-standard assignments that seemed questionable are:

- Embassy London disregarded the housing officer's recommendation and assigned a tandem couple (a junior-level and mid-level officer) to middle 3/4 housing. The applicable standard was standard 1/2 housing. The basis for the decision was that both employees were mid to senior managers and the assigned residence was "more in line with the spirit of matching available housing to the maximum entitlement"--a rationale that is inconsistent with Department policy for tandem couples. The housing officer objected to the assignment because (1) the reassignment was not cost effective and might establish a precedent and (2) the

middle 3/4 housing could be used for a higher grade employee who was to arrive soon.

- Embassy Copenhagen acquired a short-term lease for an executive 7+ residence, which was not in the post profile, for an arriving employee whose applicable standard was middle 1/2 housing, because the latter residence did not meet the employee's desires for entertaining. The post profile did not allow for an executive 7+ residence. The annual lease cost for this residence was about \$11,200, or 46 percent, more than the average lease cost for middle 1/2 housing in the post's inventory. Post also spent \$4,600 for draperies and rugs. A/FBO eventually approved a waiver of the space and cost standards.
- Embassy Santiago allowed an employee to move into an over-standard, leased house. The employee's spouse decided not to come to post and the employee did not want to pay for the maid and gardener required for the government-owned house that was the post's first choice. As a result, the government-owned house remained vacant.
- Embassy Abidjan allowed an employee to move into an over-standard house because the employee's spouse was arriving at post and the employee required additional storage space as a result of two separate household effects shipments.

The following are examples of over-standard housing assignments that were made after employees rejected available housing that was within standard:

- Embassy Santiago initially assigned an employee to a within-standard residence, but the employee disliked the post's choice and requested another residence at an additional \$6,100. The housing board allowed the employee to choose a residence outside the housing pool that was about 700 square feet larger than the applicable standard. The post obtained a cost waiver, but did not obtain a space waiver.
- Embassy Budapest assigned an incoming employee, whose applicable standard was middle 3/4 housing, to an executive 7+ short-term leased residence with an annual cost of \$40,560. Middle 3/4 housing was unacceptable to the employee for design and representational reasons. Post obtained a cost and space waiver from A/FBO. The additional cost was about \$11,300 annually, (\$40,560 minus \$29,260--the average lease cost for appropriately sized housing for this employee) or a total of \$45,200 for the employee's 4-year tour.

Availability of Over-Sized Housing

Some over-standard assignments resulted because oversized government-owned or short-term leased housing was available in the posts' housing inventories. Such housing was assigned to incoming employees even though their size exceeded applicable standards. At the time of our audit, four posts' profiles and housing inventories included large government-owned residences that, with the exception of one residence, were larger than the standards applicable to employees at post. It is uncertain whether employees entitled to that level of housing would be assigned to the posts in the future. Specifically:

- Embassy London had four executive 7+ and four executive 5/6 residences but had no employees in the former and only one employee in the latter category.
- Embassy Budapest had one executive 7+ and three executive 5/6 residences but had no employees in either category.
- Embassies Buenos Aires and Santiago each had one executive 7+ residence but had no employees in that category.

At Embassy Copenhagen, post housing officials identified several larger residences that no longer met the needs of the post and sold them.

Expensive and underused government-owned property was the subject of a GAO report, *Millions of Dollars Could Be Generated by Selling Unneeded Real Estate* (April 1996, NSIAD 96-36). GAO quoted an A/FBO list of properties for disposal valued at about \$1 million; these properties included residences at nine other posts. Following the GAO report, congressional hearings were held in June 1996, and the Inspector General testified on the operations of A/FBO.

Similar to the government-owned housing described in the GAO report, posts' housing inventories sometimes contained readily available short-term leased housing that exceeded the applicable space standards of the incoming employees. For example:

- Embassy Buenos Aires allowed an employee to move into a house because (1) the house was already in the inventory and no furniture moving was required, (2) it was the residence of the employee's predecessor, and (3) the employee liked the house. The house was about 600 square feet larger than the applicable standard.
- Embassy Buenos Aires assigned an employee to an over-standard house in its inventory because no other families were scheduled to arrive in the near future.
- Embassy Abidjan assigned 11 employees to over-standard apartments because apartment houses only required one guard per entrance, and they were therefore

easier and cheaper to protect than individual houses that required one guard per house.

Of the 98 over-standard residences that were short-term leased housing, posts had obtained space waivers for 18. As described in the later section on the profile system, waivers should have been obtained for all of these assignments.

Recommendation 1: We recommend that the Office of Foreign Buildings Operations (1) review the executive level government-owned residences at Embassies London, Budapest, Buenos Aires, and Santiago and, if economically justified, direct the posts to dispose of any residences that are larger than needed, and (2) ensure that it routinely reviews large government-owned residences at other posts and disposes of residences that are larger than needed by the posts, when and if economically justified.

A/FBO agreed with our recommendation and will routinely review executive level residences and large government-owned residences and dispose of residences that are larger than needed, when and if economically justified.

Misinterpretation or Misuse of Housing Standards

Housing board members and housing officers in Buenos Aires and Santiago were using incorrect standards. The housing officer in Buenos Aires incorrectly believed that (as permitted by the previous housing standards) the housing standards permitted a 10-percent variance from the space standards, and the housing officer in Santiago used outdated, pre-1991 standards, which based the allowed housing space on the number of bedrooms an employee and his/her family members were entitled to. As a result, an employee in Buenos Aires was housed in a residence that was larger than the applicable standard. The employee, whose applicable standard was standard 1/2 housing, was housed in newly leased middle 1/2 housing, which was 10 percent larger.

Recommendation 2: We recommend that the Office of Foreign Buildings Operations issue a reminder to all posts describing the two deviations from housing policy cited under "Misinterpretation or Misuse of Housing Standards" and reiterating that the new housing standards are to be used as the maximum space allowed, except in prescribed situations.

When we brought this matter to the attention of post officials, they acknowledged the mistakes and assured us that they would not base assignments on incorrect or misinterpreted standards in the future.

A/FBO agreed with the recommendation and will issue a reminder to all posts.

Lack of Incentive to Hold Down Housing Costs

Housing boards, or individual housing board members, had little or no incentive to hold down program costs because they had no accountability for the cost implications of their decisions. As a result, they (1) seldom questioned employees' demands or requests and frequently became advocates for them and the agencies they represented and (2) did not use comparative cost as a factor in selecting between residences under consideration, as called for by housing policy. This lack of motivation existed largely because A/FBO paid for leases, no mechanism existed for holding boards accountable for their decisions, and post officials did not force adherence to housing policy. On many occasions, while making assignments to over-standard housing, board members did not act like government officials striving to hold down costs by assigning employees, to the extent feasible, to housing that is within the standards, as called for in housing policy and guidance.

Examples of housing boards' questionable or apparent lack of consideration to cost include:

- Embassy Budapest leased an executive 3/4 residence at a cost of \$50,120 annually for an employee whose applicable standard was only middle 3/4 housing. We could find neither a waiver nor any mention of the rationale for the lease in the housing board minutes.
- Embassy Copenhagen board members did not discuss cost when considering several residences selected by the housing officer for an incoming employee. The only mention of cost, a major factor in this process, according to the FAM, was a statement that the lease for the residence approved by the board would require a cost waiver. The board assigned a residence that cost about \$6,700 more annually than the average cost of similar residences in the post's inventory.
- Embassy London allowed a new employee to move into a small, expensive, leased apartment based on the employee's concerns about traffic patterns to the employee's dependent's school. The requested apartment was not in the inventory and was not expected to be leased for future employees. Its annual cost was \$19,000 above the average cost of similar apartments in other locations.

The lack of concern with cost appears, in some instances, to be attributable to board members not being fully aware of their intended roles and responsibilities. In virtually all cases, they had not received training before their appointment to the boards. The only background material usually provided to new board members was the housing handbook, which contained 6 FAM 720 and some post-specific material. Some board members, however, said that they did not need any training because they had prior experience in that role. Although experienced board members did not express any need for training and

guidance, new members with less experience indicated that there was a need and stated that they presently had to learn on the job.

Housing officers and housing office staff have different motivational influences than housing boards and housing board members. Unlike housing board members, they must request additional funds from A/FBO if expected lease costs exceed the lease limit. In addition, officers and staff must provide the time and effort required to locate new residences. Consequently, they would generally rather retain a stable housing inventory, if given the choice.

Also, unlike the housing board members, housing officers and housing office staff are motivated to hold down ancillary costs--such as the cost of refurbishing residences, making security upgrades, and preparing residences for their next occupants--in part, because the funds for these activities are in post budgets. However, for the assignments reviewed, housing officers and housing office staff did not challenge, or were not effective in challenging, housing board decisions. This issue is developed further in a subsequent section on "Insufficient Oversight."

Recommendation 3: We recommend that the Office of Foreign Buildings Operations (1) instruct the post real property manager to provide an orientation to newly named housing board members on their responsibilities related to housing space and housing cost before they serve on a housing board, and (2) instruct area managers to determine, during their post visits, if such orientation is being given, whether it is considered adequate by board members and post officials (especially as related to personal requirements, employee demands or requests, and cost considerations), and whether additional training or emphasis is warranted.

A/FBO agreed with the recommendation and will instruct post property managers on their responsibilities related to housing space and housing cost. Area Management Officers will determine if instructions are given to board members and if they are considered adequate by board members. A/FBO also suggested that the OIG could routinely verify the performance reviews of the Interagency Housing Board with regard to adhering to cost and space standards in housing assignments in order to provide needed support to post housing officers and single real property managers whose recommendations are often ignored by post housing boards.

Imprecise Guidance

As previously described, imprecise guidance concerning the objectives of the housing program contributed to the incidence of over-standard housing and to the vacant residences and mid-tour move problems cited in separate sections of this report. Guidance was not

precise because the program objective, "to provide safe and secure housing which is adequate to meet the professional and personal requirements of employees at a cost most advantageous to the U.S. Government," includes competing goals that are not clearly defined. Specifically, the objective of the housing program and related guidance do not:

- define what should and what should not be properly considered to be employee requirements,
- define what was meant by "at a cost most advantageous to the U.S. Government," or
- provide guidance to posts' housing boards on how to deal with employee demands and requests that do not constitute "personal requirements."

In FY 1995, the Strategic Management Initiative II (SMI) Team used a questionnaire to obtain employees opinions about what they considered to be the most important factors in creating and maintaining a high quality of life overseas. The responses identified "housing, furnishings, and utilities" as the most important factors. As a result, the SMI team recommended that A/FBO develop a "user's guide" or handbook to explain the regulations and clarify employee rights with emphasis on customer service. The handbook is in draft.

Recommendation 4: We recommend that the Office of Foreign Buildings Operations complete and issue the handbook recommended by the Strategic Management Initiative II Team, ensuring that it gives housing boards a better understanding of the relative importance of the factors involved in assigning a residence. At a minimum, we recommend that the guidance define "personal requirements" so that post officials and housing boards can differentiate between legitimate requirements and demands or requests that need not be honored, or need be honored only if they can be accommodated without incurring significant additional costs.

A/FBO agreed and stated that the handbook is in the final draft and clearance stage and a copy will be provided to the OIG when it is published.

Recommendation 5: We recommend that the National Foreign Affairs Training Center include the information in Recommendation 4 in its Ambassadorial and Deputy Chief of Mission Seminars.

The National Foreign Affairs Training Center responded that a module on the housing policy was added to the DCM Seminar in 1996. While it did not feel it was appropriate to add a discrete module on housing program management to the Ambassadorial Seminar, the Training Center said that it would prepare a set of talking points to guide a discussion on

housing program management and Chief of Mission responsibilities and include A/FBO's housing handbook as a handout when it is published.

Housing Profiles Not Used

In accordance with housing policy, eight of the nine posts (Almaty did not have a profile because it was a new post) visited had developed housing profiles and A/FBO had approved them. However, posts and A/FBO had not implemented the profiles in accordance with the housing policy. Housing policy (as issued in an All Diplomatic and Consular Posts cable A-171) calls for a phased implementation during which posts can adjust their housing inventories to their approved profiles. A component of the required, phased implementation is that posts in locations having suitable, within-standard housing in the local economy must request an A/FBO waiver for every over-standard housing assignment until implementation is completed. After full implementation, these posts are, according to the policy, allowed to assign over-standard housing without requesting waivers, as long as the over-standard assignments are within the posts' approved and implemented profiles.

Example of a Housing Profile

The following approved profile for Embassy Santiago illustrates the housing profile system. It should be noted that Ambassadors' residences, deputy chiefs' of mission residences, and the Marine Guard Detachment residences are not included in post profiles.

Level	1/2 Person	3/4 Person	5/6 Person	7+ Person	Total
Executive	0	2	0	1	3
Middle	15	13	4	0	32
Standard	22	22	5	0	49

In total, the Embassy is authorized 3 executive, 32 middle, and 49 standard residences, for a total of 84 residences. The profile shows, for example, that Embassy Santiago could have up to 22 standard residences for standard-level employees with no more than one dependent and 13 middle residences to accommodate mid-level employees with two or three dependents.

Actual Operations

A/FBO staff were operating as if A/FBO's approval of the posts' housing profiles constituted full implementation. One A/FBO official stated that the prescribed, phased implementation was not carried out because A/FBO had assumed that posts would bring their housing inventories in line with their approved profiles. Contrary to this belief, however, almost all posts (housing boards and housing offices) did not consider their profiles when making their housing decisions. Only two of eight posts (Buenos Aires and Montevideo) were considering their approved profiles when making housing recommendations and decisions.

Even if the posts had tried to conduct a phased implementation of their approved housing profiles, the approved profiles may have been ineffective in controlling over-standard housing, because the approved profiles had quickly become outdated when they were not revised to reflect personnel downsizing or, in some cases, when expected personnel increases did not materialize. (This issue is discussed further in a later section on profile accuracy.) As a result of the failure to implement and update the housing profiles, neither we nor the Department can determine--for the posts visited--whether the housing profile system can achieve the expected benefits related to greater stability in their housing inventories and lower housing and related ancillary costs.

Had posts implemented and used the profile system as intended, they would have found it extremely difficult to determine whether the profile system was successful in stabilizing the posts' housing inventories and holding down ancillary costs because neither the posts nor A/FBO had compiled baseline information on either the stability of posts' housing inventories or their ancillary costs. A baseline for ancillary costs would be difficult to establish, in part, because the source of funding is so varied. The Bureau of Diplomatic Security pays for security upgrades, and A/FBO or the geographic bureaus pay for make-ready costs, depending on the type of lease.

Reasons for Non-Use of Profiles

Housing staff at four posts said that they did not consider the profile when they selected housing for new employees; instead, they acquired housing based on immediate needs. Employees on the housing staff said that if they needed a residence, they obtained it based on the employee's position and family size without considering the profile. Furthermore, some housing staff employees said that they did not use the profile because they did not understand how to use it. For example, one employee said that (1) the profile was confusing, (2) the housing staff neither used nor paid any attention to it, and (3) if a new leased residence was needed, post acquired the residence without referring to the profile.

An example from Embassy London illustrates the post housing board's lack of concern for a stable housing inventory. Rather than using the housing profile to help stabilize its housing inventory, the board allowed an incoming employee to choose a different residence

than the one selected by the housing officer. The employee considered the initial residence unacceptable for personal reasons, including the distance from a special school, the traffic pattern to the school, and the condition of the residence. The housing officer informed the board that it was not cost efficient to obtain a new lease every time an incoming employee's personal desires conflicted with the residences in inventory. The housing officer noted that the lease on the residence preferred by the employee would likely not be renewed because the residence was quite small and expensive, about \$19,000 more annually than the average cost of similar apartments in other locations. In addition, the lease proposed by the housing officer would have resulted in a residence 727 square feet larger. However, the board assigned the employee to the residence the employee preferred.

Another reason why the profiles, especially for larger posts, were not being used as a management tool was that neither posts nor A/FBO had required information in a readily available form, to easily determine whether the posts' housing inventories were within their profiles. This determination is complicated because the standards overlap. A residence of a given size can be within the standards (the maximum space normally allowed) for different levels (executive, middle, or standard) and family sizes. The determination as to whether a prospective residence is within the post's profile is important because--under the current housing policy--it dictates whether or not a post must seek an A/FBO waiver for assignments that are over-standard.

To determine whether a residence is within the profile, the housing staff must compare the current inventory to the profile. The profile system allows for a specific number of residences by position and family size, for example, a profile might call for two executive 1/2 residences, four middle 1/2 residences, and five standard 1/2 residences. For this reason, REMS data must also be sorted by position and family size in order to make a comparison. At the time of our audit, the comparison had to be performed manually and, consequently, neither A/FBO nor posts' housing office staff used the profile as intended for this purpose.

To enable posts, especially larger posts, to use housing profiles effectively, additional data need to be available. An automated profile process that would extract information from REMS, or any future replacement system, and summarize residences by category would allow post staff to compare the inventory to the profile. Also, additional A/FBO guidance to the post's housing personnel, perhaps based on the experiences, if any, of posts that have been successful in using their profiles, is needed to show housing staff and boards how to use their profiles.

Profile Accuracy

Posts' housing profiles were outdated because they had not been updated to reflect staffing decreases. Five of the eight posts, whose profiles we reviewed, had significant decreases in staffing since the profiles were approved by A/FBO. For example, Embassy

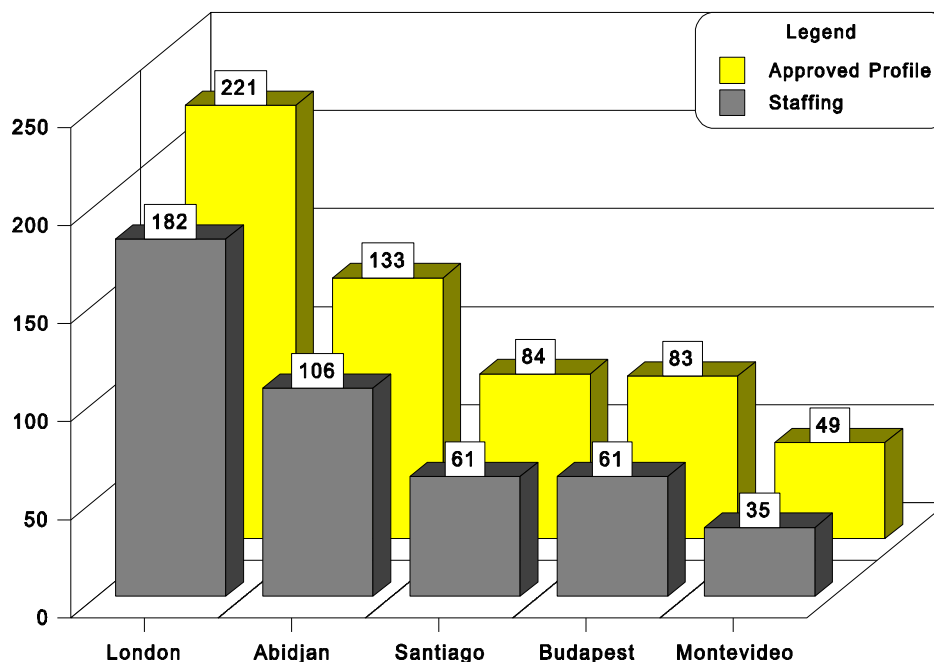
Budapest's profile was based on a projected staff of 78 employees plus 5 TDY housing units, for a total of 83 housing units. However, because of downsizing efforts, the staff consisted of only 61 employees at the time of the audit.

A serious potential problem with housing profiles that have not been updated to reflect significant staff reductions--if they were actually being used by posts to manage their housing inventories--is that they give posts even greater flexibility than normal to over-house employees without having to seek waivers from A/FBO. For example, if a post's downsizing eliminated employees at a given housing level, such as middle 5/6, and the profile was not updated to reflect the eliminated positions, other employees entitled to smaller residences could be housed in the middle 5/6 housing. The post could maintain that the overhousing was done in the spirit of the housing profile system to stabilize its housing inventory, and no waiver request to A/FBO would be required.

Beyond the effects of significant downsizing, profiles also become outdated because they are based in part on estimated future staffing changes and staff demographics. Seven of the posts visited, based the initial profiles on 1991 staffing levels, with adjustments based on projected staffing changes. Only Montevideo considered past demographics in developing the proposed profiles, as called for by housing policy. As a result, the mix of family sizes reflected in their proposed profiles was based on less historical data than intended. Because projected staffing increases were not effected, the profiles were not an accurate reflection of actual posts' staffing.

The following graph compares the housing profiles to the staffing levels at the time of our audit.

Housing Profiles



Although 6 FAM 723.3 requires that A/FBO consult with post management and review the post profile every 2 years, six of the eight posts' original profiles were approved from 24 to 26 months earlier but had not been submitted for A/FBO review as required. Posts also are responsible for submitting a new profile when major changes in position structure, demographics, or the local real estate market occur within the 2-year period. Two posts, Budapest and Montevideo, complied with this requirement. Posts' housing staff explanation for not updating their profiles was that they preferred to wait until the 2 years had passed even though the posts had undergone a major change in the number of employees in the housing pool. The posts' housing staff added that the profile approval process involved a lot of work that they would rather not go through until necessary. A/FBO personnel said that they have not implemented the required 2-year review because of a lack of time and staff. Because the profiles are generally not being used by posts' housing staff and board members in managing the posts' housing inventories, the failure to update the profiles has had little, if any, effect. If A/FBO believes that the profile system can be used to effectively stabilize housing inventories and result in cost savings, it should ensure that profiles are updated, when warranted, and used as intended.

Recommendation 6: We recommend that the Office of Foreign Buildings Operations reevaluate the housing profile system to determine if and how posts can use it effectively to manage their housing inventories. Because our review did not disclose

any large posts that were successfully using the profiles as intended, part of this reevaluation could be to identify and evaluate other large posts, if any, that are using the profile system successfully.

Recommendation 7: We recommend that, if the Office of Foreign Buildings Operations determines that the profile system can and should be used by overseas posts, it develop and provide additional guidance to post housing officers on how to use them in making housing assignments. Lessons learned could be developed from posts, if any, identified and evaluated under Recommendation 6.

Recommendation 8: We recommend that, if it determines that the profile system can and should be used by overseas posts, the Office of Foreign Buildings Operations identify posts that have not updated their housing profiles, either within 2 years of the date of approval of the current profiles or subsequent to significant staffing changes (such as downsizing), and specifically require these posts to update their profiles.

A/FBO agreed with Recommendations 6-8. For Recommendation 6, A/FBO noted that other factors, including the sometimes conflicting roles for the housing board and the real property manager and the tendency for posts and constituent agencies to request headquarters to overturn waiver disapprovals, detract from the benefits of the profile system. A/FBO stated it will reevaluate the housing profile system to determine if and how posts can use it more effectively to manage their housing inventories. For Recommendation 7, A/FBO stated that it will develop and provide additional guidance to post housing officers on how to use the profile system in making housing assignments, if the profile system can be used by posts. For Recommendation 8, A/FBO said that its Real Estate Division continues to make significant efforts to review and update profiles. If it determines that the system can and should be used by posts, A/FBO will ensure that all posts update their profiles accordingly.

Insufficient Oversight

Oversight of housing board operations by post and A/FBO officials was not effective in ensuring that, or in determining the extent to which, (1) over-standard housing assignments to leased residences were consistent with program space standards and cost policies and objectives and (2) housing profiles were being used as intended. Questionable over-standard housing assignments to leased residences were made, in part, because housing boards made over-standard assignments to leased residences with little or no effective influence from post officials--in spite of the stated oversight role and responsibilities of post and A/FBO officials. Furthermore, A/FBO's oversight mechanisms--the post profile, the housing inventory as shown in REMS, waivers, and area manager visits--were not effective in detecting either

questionable housing assignments, posts' failure to use housing profiles as intended, and housing boards' lack of consideration for cost.

In addition to lacking incentive to comply with housing standards, as previously discussed, the housing boards performed in this manner, in part, because the roles and responsibilities of the boards, the housing officer, and the property manager do not clearly define responsibility for compliance with housing policy. On the one hand, the housing boards are labeled as independent boards, responsible for implementing Department and post housing policies and procedures. However, post housing officials and A/FBO have stated roles and responsibilities that conflict with the concept of an independent housing board. In practice, boards made the housing decisions, sometimes over the objections of post housing officers; but post officials did not have, or did not exercise, the level of control that would have resulted in forcing boards to make different decisions.

Applicable Guidance

According to 6 FAM 713.2, the responsibility for implementing the Department's policies and procedures for housing at overseas posts rests with the chief of mission. The chief of mission delegates day-to-day responsibilities to the senior administrative officer, who is called the single real property manager. In addition, a post housing officer and his/her staff is generally responsible for day-to-day operations of the post's housing program--excluding housing assignment decisions, which are made by the posts' housing boards. The chief of mission is charged with establishing an interagency housing board, which functions as an independent working group, implements Department and post housing policies and procedures, and reports to the chief of mission through the post property manager.

The property manager is responsible (as described in more detail later in this report) for "advising the post housing board" and for "implementing all policies and procedures related to real property." The specific responsibility and accountability of the housing boards is not specified in the FAM. The actual housing assignments at the visited posts were made without the degree of involvement of post property managers that is called for by housing policy.

A/FBO staff have stated that the overseas housing program is a decentralized program, with primary responsibility at post. However, in addition to posts' oversight responsibilities, the FAM also assigns monitoring responsibilities to A/FBO. The FAM requires that A/FBO: (1) review and approve housing profiles submitted by the post, (2) approve revised housing profiles prepared by posts to reflect major changes in post demographics or post position structure, (3) monitor housing profiles through the REMS system, (4) review profiles every 2 years and, in consultation with post management, determine if adjustments are necessary, and (5) review and approve or disapprove waiver requests for residences exceeding space standards and annual lease costs over \$25,000 (or a

different post-specific amount). The problems we found that related to these responsibilities are described in the following sections.

Housing Officers

Posts' housing officers (generally a General Services Officer), along with the housing office staff, are responsible for developing and presenting proposed housing assignments to the housing boards. In order to carry out this responsibility they (1) receive pre-assignment information from employees and/or their agencies and (2) consider the employees stated requirements and requests in relation to the existing housing pool, planned departures from and other planned arrivals at post, planned changes to the housing inventory, available housing in the local economy, housing standards, and housing policy.

Post Property Manager

Post property managers have not been effective in providing the direction and oversight necessary to ensure that housing boards give housing standards and cost considerations the attention called for by housing program objectives and policies. The property manager is supposed to be the authority on all issues related to the real property program and serves as liaison with A/FBO. Responsibilities, as stated in the FAM, include:

- implementing all policies and procedures related to real property;
- serving as a non-voting, ex-officio member of the post housing board;
- advising the post housing board on the appropriate implementation and management of the post housing program;
- advising the chief of mission and the housing board on housing issues; and
- preparing the annual certification to the chief of mission that all housing acquired and assigned during the fiscal year was in compliance with all regulations, policies, and procedures.

To varying degrees, the property managers at the posts visited performed the duties assigned by the FAM. However, there is an inherent conflict between (1) the post property manager's responsibility to "implement all policies and procedures related to real property" and to "advise the post housing board on the appropriate implementation and management of the post housing program" and (2) the housing board's responsibility to act as an independent body.

For that reason, it is not clear exactly what the post property managers' authority and responsibility is--versus the housing boards' responsibility--for ensuring compliance with housing standards and meeting the cost-effectiveness objectives of the housing program. What is clear is that the post property managers did not intervene in those instances when housing boards made housing decisions that:

- met employees' demands or requests that either were questionable as, or went beyond, "personal requirements," sometimes over the objections of the post housing officers; or
- were inconsistent with housing policy calling for housing at "a cost most advantageous to the U.S. Government."

The post property managers were very reluctant to intervene with the housing board. For example, several property managers said that they could not foresee a circumstance where they would have to overrule the boards and were not certain that they had the power to do so.

Recommendation 9: We recommend that the Office of Foreign Buildings Operations:

- establish controls to ensure that housing boards give appropriate consideration to cost in their housing decisions, especially those involving over-standard housing assignments, and
- more clearly define the roles and responsibilities of housing boards and housing officers in accomplishing housing objectives related to conducting cost-effective programs and holding down housing costs and revise volume 6, section 722.3, of the Foreign Affairs Manual, accordingly.

A/FBO agreed with the recommendation and pointed out that some issues at post (i.e., division of authority and the fact that short-term lease costs are financed by individual agencies) create obstacles to implementation and are outside the Department's control. A/FBO will also more clearly define the roles and responsibilities of housing boards and housing officers in accomplishing housing objectives related to conducting cost-effective programs and holding down housing costs. The proposed changes will require amendments to the 6 FAM.

Information Systems

A/FBO could not monitor housing profiles through REMS as planned and as required in 6 FAM 723.3. REMS was not an effective monitoring tool because REMS data were often inaccurate, the staffing information about non-Department employees was available only at

post, and REMS reports contained only current data thereby rendering impossible an accurate reconstruction of past housing inventories without use of a deleted records file. However, A/FBO lacks the trained staff to use this data. In addition, the category of residence (standard, middle, or executive), although a required data element in REMS, was not used for two of the posts we reviewed.

A/FBO's ability to monitor housing profiles continues to depend on posts providing accurate and reliable data. This data has traditionally been inaccurate and incomplete. In 1989, GAO reported that REMS continued to contain inaccurate and incomplete data and two recent OIG reports (*Acquisition and Disposition of Real Estate Overseas*, 2-PP-002, and *Financial Accounting for Overseas Real Property*, 97-PP-008) also stated that data contained frequent inaccuracies. Our review found, for example:

- Embassy London used an informal amenities standard in addition to the space standards cited in the FAM. That is, a smaller residence was considered suitable for a higher-graded or larger family if the residence had sufficient amenities, such as a desirable location or better furnishings, moldings, pictures, etc.
- Embassy Budapest had 27 of its 74 residences (36 percent) in the wrong profile category because the individual who input the data to REMS made many input errors and no one reviewed the work.
- Embassy Santiago had incorrectly coded eight TDY housing units, seven as residences and one as an office.
- Embassy Copenhagen had incorrect space measurements on four of the six residences visited. In one residence, a 600 square-foot recreation/family room with a fireplace, located in the basement, was not included in the measurements because a pipe was exposed.

Smaller discrepancies existed for other posts. The level of care taken in measuring residences varied. In Budapest, a Foreign Service national, who was a professional architect, performed the measurements, but high school students on summer break performed the same task in Copenhagen. Although REMS contained some inaccurate square footage, the inaccuracies did not, in our opinion, with the Copenhagen example exception, appear to be material. The housing staff in Copenhagen were aware of this issue and planned to remeasure the residence more carefully.

Posts sometimes did not input the category of residence (standard, middle, or executive) in REMS. While Embassies London, Buenos Aires, Copenhagen, and Budapest included the category in REMS, Embassy Santiago used its own version of REMS, and Embassy Montevideo was not on the automated REMS. As a result, A/FBO could not

compare the profile to REMS. Although the square footage of a residence is required in REMS, many times it cannot be used to determine the category because the space standards use a maximum entitlement, and a residence can fit into more than one category. For example, based on the space standards at a locality level-one post (see appendix A), a residence that measures 1,700 square-feet could be considered an executive 1/2 or a standard 3/4 residence.

Effective A/FBO oversight is also hampered by a lack of necessary information. For example, the number of staff and family size at other Federal agencies, such as the Department of Agriculture and the Federal Aviation Administration, are not available in REMS or in A/FBO. The only source of this information is at post. Without it, comparing the housing inventory with the post staffing level is not possible, and oversight is inherently limited.

Recommendation 10: We recommend that the Office of Foreign Buildings Operations review the profile for Embassy London to determine if the embassy has improperly classified residences based on informal consideration of amenities rather than the requirements specified in the Foreign Affairs Manual. If Embassy London has improperly classified any residences, we further recommend that the Office of Foreign Buildings Operations undertake the necessary actions to correct the embassy's housing profile.

A/FBO agreed with the recommendation.

Recommendation 11: We recommend that, if the Office of Foreign Buildings Operations determines (in accordance with Recommendation 6) that the profile system is to be retained, it enhance the Real Estate Management System to provide an automated comparison of the housing inventory and the post profile so that Office of Foreign Buildings Operations' personnel and post housing staff can determine whether a post is within its profile.

A/FBO responded that an automated system to compare housing inventory and post profile is already in place. A/FBO's next step is to provide software to posts, either through a new automated property system now under consideration to replace REMS or by a separate "add on" system.

Waivers

A/FBO is required by the FAM to consider waiver requests from post for all housing assignments that exceed an employee's space authorization (if the residence is not within the post's approved and fully implemented housing profile) and for leases in excess of \$25,000 per year. Waiver files for the posts visited showed that about 97 percent of the waiver requests (134 of 138) submitted to A/FBO during a recent 1-year period were approved. The high

approval rate suggests that A/FBO's hands are effectively tied in such matters, especially when posts or agencies push repeatedly for approval because disapproval of the waiver might be disruptive to the post and the employee and sufficient time might not be available to find a cost effective alternative residence. Also, the FAM only provides guidance to posts on how to prepare and submit the waiver requests in a uniform format. A/FBO has not developed any guidance or standards to use as a basis for approving or denying waiver requests.

Recommendation 12: We recommend that the Office of Foreign Buildings Operations establish and implement waiver standards consistent with the emphases on the personal and professional requirements of the employee and at a cost most advantageous to the government.

A/FBO did not agree with the recommendation. It stated that existing waiver standards are sufficient to manage the program and noted that it has established (1) effective controls to the point where post does not have the authority to routinely approve deviations to their housing profiles and (2) stringent procedures for post to follow and document prior to sending a request for approval of an over-standard residence and only three reasons for exceeding space standards. The requests must be approved and documented by the post's Single Real Property Manager, the Inter-Agency Housing Board, and the Chief of Mission prior to being considered by A/FBO. A/FBO asked what other requirements the auditors would add.

We held discussions with A/FBO audit liaison staff and informed them that the reason for the recommendation was to establish criteria for A/FBO waiver staff to follow in evaluating waiver requests. Written criteria with specific considerations for cost, security, and personal requirements, for example, would give A/FBO waiver staff a better basis to evaluate constituent agencies' requests to overturn waiver disapprovals--as A/FBO noted in its response to Recommendation 6.

Area Managers Reviews

The A/FBO area managers are responsible for oversight of the housing program at their assigned posts. Oversight is accomplished partly by visits to posts where the area manager completes a checklist of required tasks. The checklist includes some housing-related issues but does not include review of post property manager certifications or housing board minutes to ensure that the boards' decisions are in compliance with applicable standards and that profiles are up-to-date. Neither does it include verifying, on a sample basis, the accuracy of post reporting and the accuracy of the number and percentage of over-standard housing. Based on our review of posts' records, we did not find any records at a post that indicate that actions were taken to improve or change the housing program as a result of the area manager visits.

Recommendation 13: We recommend that the Office of Foreign Buildings Operations amend the area manager checklist to include reviews of real property manager certifications and post housing board minutes to provide added assurance that posts are in compliance with the housing standards, including--if it determines (in accordance with Recommendation 6) that the profile system is to be retained--whether posts have updated their housing profiles when warranted, and reviews, on a sample basis, of the accuracy of post reporting and the accuracy of the number and percentage of over-standard housing.

A/FBO agrees that reviews of these areas are appropriate for Area Management Officers to undertake as part of their post visits. However, A/FBO believes it would be inadvisable for mid-level Area Management Officers to carry the review to the point of attempting to validate or contest the certification of the real property manager. If OIG intends for the Chief of Mission's certification to come under scrutiny, that should be undertaken separately by a team lead by a senior individual. A/FBO suggested that we supplement this recommendation by recommending that annual Chief of Mission certification instructions provide more detail and guidance. We changed Recommendation 17 to include A/FBO's suggestion.

Annual Certifications

Three posts visited did not have procedures in place to ensure that post property managers certified that the housing program complied with established policies and procedures as required by 6 FAM 719.4-2. The certification must (1) include a list of housing actions for the past year, (2) be in writing, and (3) be retained for 3 years. Embassy Almaty did not have to comply with this requirement. Post housing officers at Embassies Budapest and Buenos Aires were unaware of the requirement, but noted that the post property manager normally discusses the housing actions with the chief of mission. Also, the housing staff at Embassy Copenhagen noted that the former ambassador's secretary may have inadvertently taken the certifications when she departed post. Accordingly, none of the three posts could substantiate that the required certification was completed.

The requirement for annual certification by the post property manager resulted from an OIG recommendation in an October 1989 report (*The Department's Oversight and Enforcement of Housing Standards Overseas*, O-PP-001). The report stated that because the boards were frequently lax in carrying out their duties, they should be held to a higher level of accountability. The report recommended that the post property manager certify whether post leasing actions comply with Department policies and procedures and whether board decisions meet approved housing policies and standards. The recommended action was eventually implemented as 6 FAM 719.4-2.

Recommendations 14-16: We recommend that Embassies Budapest, Buenos Aires, and Copenhagen establish and implement procedures to ensure that the annual certification by the real property manager is submitted annually with the appropriate information and retained as required. (Recommendation 14 - Embassy Budapest, Recommendation 15 - Embassy Buenos Aires, Recommendation 16 - Embassy Copenhagen).

Embassy Budapest stated that annual certifications for 1995, 1996, and 1997 are on file. While the 1995 and 1996 certifications did not include the list of housing actions, the 1997 certification did. Embassy Budapest did not state whether there are procedures in place to ensure that certifications would be submitted annually.

Embassy Buenos Aires agreed with the recommendation and has established and is implementing procedures to ensure the certification is submitted annually. The Housing Office maintains all files.

Embassy Copenhagen stated that the post is in full compliance with the FAM requirement and has the certifications for 1994 through 1996 on file. The 1997 certification was submitted to the Department on September 24, 1997.

Recommendation 17: We recommend that the Office of Foreign Buildings Operations (1) reevaluate the requirements for the single real property manager certification, (2) issue additional guidance on the concerns raised in this report regarding adherence to the housing policy and cost considerations, and (3) require the single property manager to certify that any acquisitions of residences complied with regulations, policies, and procedures.

The draft report did not contain this recommendation in its present form. The need for the change to the recommendation arose from consideration of A/FBO's general comments to our draft report. We agree with A/FBO's statement that posts can still choose to ignore additional and tighter guidance. However, it will be more difficult for posts to ignore the requirements and accountability if the Chief of Mission must certify that the requirements of the housing policy were met.

A/FBO agreed with the recommendation and will issue additional guidance as noted.

Recommendation 18: We recommend that the Office of Foreign Buildings Operations review its approval process for both post profiles and waivers with an emphasis on controlling over-standard housing assignments.

A/FBO believed that the problem lies in the issues of authority, competition, and in post's lack of budget authority for leases, an issue not addressed in the report. However, A/FBO agrees that the process can be reviewed. A/FBO stated that, in fact, a review during the past year streamlined headquarters effort and improved control and that emphasis will now be placed on empowering posts to manage better.

Performance Measures

To comply with the Government Performance and Results Act, the Department and A/FBO are required to prepare annual plans with performance goals and performance measures and to report annually on their progress in reaching their stated goals. Performance measures must--to the extent feasible--be objectively measurable. Performance measures related to the housing program might reasonably be expected to address over-standard housing, vacant government-owned properties, and the stability of the posts' housing inventories. To be able to report on its progress, A/FBO would need additional data not currently present or readily available in either the REMS system or elsewhere.

A/FBO has stated that oversight of the overseas housing program could be accomplished through the profile approval process and that REMS would provide information for oversight. However, A/FBO does not have complete, accurate, and consistent data from the profile, REMS, waivers, and area manager reports that would enable it to document performance and support decision-making. Once the data are collected, they can have value only if they are used to identify the gap between actual performance and the performance level that A/FBO establishes as a goal. Once the performance gaps are identified, A/FBO can target its resources to improve stability of the housing inventory and lower costs.

Recommendation 19: We recommend that the Office of Foreign Buildings Operations develop performance measures to evaluate whether the overseas housing program is meeting the goals set forth in volume 6, section 720, of the Foreign Affairs Manual, including instructing posts to determine and track when posts acquired existing leased residences and when posts acquire future residences so that A/FBO can determine whether the post has been successful in stabilizing its housing inventory. If the information necessary to make this determination is not in the Real Estate Management System, the posts should add this data.

A/FBO agreed with the recommendation and will move forward on this effort in calendar year 1998.

Recommendation 20: We recommend that the Office of Foreign Buildings Operations require that posts with a significant percentage of over-standard housing assignments establish goals for reducing this percentage and that these posts report on their goals and their progress periodically to the Office of Foreign Buildings

Operations. One way to accomplish this is to require posts to identify over-standard residences at the end of the first and third quarters of the calendar year to show changes in the summer cycle.

A/FBO agreed with the recommendation and will require posts to (1) establish goals for reducing over-standard housing assignments where any significant percentage of over-standard housing assignments exist and (2) report on these residences twice annually.

Vacant Government-owned Residences

Government-owned residences in London and Santiago were allowed to remain vacant for several years, even though they could have been occupied, because either the employees or the housing boards rejected the housing assignments proposed by the housing offices. Board members often acted as representatives of their individual agencies and tried to accommodate employees' personal desires. As a result, government-owned residences remained vacant while new, short-term leased residences were obtained at a cost to the Department of about \$217,400 annually plus one time make-ready costs of about \$35,000.

For example, Embassy London's board ignored the housing officer's recommendations for housing assignments and allowed six apartments in a government-owned building located in Pastor Court to remain vacant because the building had become unpopular with employees.

According to the housing staff, the building had been popular with young, single employees. When post's staffing changed to include more older, married employees, the building acquired a bad reputation. It was on an allegedly unreliable subway line, and the walk from the subway stop was said to be dangerous at night and too long. The housing staff obtained information showing that the subway line was as reliable as others in London and that crime was no more a problem in that area than any other area of London. However, the board's attitude remained the same; the chairperson stated to the auditors that Pastor Court could "rot."

Similarly, Embassy Santiago had three government-owned residences no longer assigned as permanent residences. Instead, the board allowed them to be used as TDY housing because employees believed the residences were located in a section of the city that was more polluted than the newer sections of Santiago. In addition, the newer sections were more desirable because they were closer to the American school. (Use of the three residences as TDY housing is discussed in greater detail in finding C.) After our audit, Pastor Court and the Santiago residences were sold.

The decisions of the boards to lease residences while government-owned residences remained vacant resulted in unnecessary costs. The average annual short-term lease costs during the applicable period were \$27,400 in London and \$17,600 in Santiago. We estimate that the two posts incurred about \$217,400 annually of unnecessary lease costs for the nine apartments.

In addition, both posts incurred costs for security, safety, and fire surveys as well as security upgrades and make-ready costs, which are required before a leased residence can be brought into the housing pool. For example, the cost to repaint an apartment in London was \$4,400. The total cost for each apartment for security, safety, and fire surveys was about \$1,500. Security upgrade costs included locks, alarms, and sometimes expensive grilles with emergency escape hardware. The estimated costs for one residence was \$5,900, or \$35,400 for all six residences. Similar information was not available in Santiago.

Finally, although not quantifiable, the post's housing staff, the housing board members, and the employees were involved in the search for short-term leased residences. The staffs had to negotiate with leasing agents, obtain the leases, and prepare the residences for occupancy. Board members and employees spent time looking at potential residences. These efforts could have been eliminated if the government-owned residences had been used. Budget constraints have evidently sensitized A/FBO to this problem. A January 31, 1996, All Diplomatic and Consular Posts cable noted that A/FBO will not consider requests for lease extensions/renewals or new leases if government-owned or long-term-leased housing is available. Posts must now include a statement concerning the availability of government-owned and long-term leased residences for foreign affairs personnel in any request to A/FBO for permission to lease or renew existing leases for residences.

Mid-tour Changes of Residence

Housing boards at Embassies London, Santiago, Abidjan, and Budapest permitted employees to change residences for personal reasons during their tours of duty, leading to increased housing costs. Some of the reasons appear to be insufficient to justify the move, and FAM guidance is inadequate to indicate the conditions under which such moves can or should be approved. Employees' requests to move were based on a variety of reasons ranging from insufficient room for visitors to a too-small bedroom for a dependent. For example, from April 1992 through September 1994, Santiago's board approved 11 of 12 requests for a change in residence. Seven of the 11 approvals were based on personal preferences. In one instance, an employee moved because of a claimed need for an adequate public area to entertain even though the employee had no representational responsibilities. Another employee wanted a larger yard in which children could play. Similarly, from May 1993 through October 1994, London's board approved 20 of 25 requests for a residence change.

Although the FAM does not provide guidance on this issue, post officials said that mid-tour moves usually require the employee to pay the actual moving costs. However, both residences may need to be repainted, and any administrative, security upgrade, and make-ready costs are paid by the post. For example, as previously noted, the costs to repaint an apartment in London was \$4,400. As a result, the Department may incur substantial costs for the moves.

Recommendation 21: We recommend that the Office of Foreign Buildings Operations develop and distribute to posts more definitive guidance for deciding whether an employee request to change residences in mid-tour should, or should not, be approved.

A/FBO partially agreed with the recommendation. It will develop and distribute guidance to posts as noted to empower posts to make decisions regarding mid-tour moves based on budget authority and responsibility for their own actions.

C. TEMPORARY DUTY HOUSING

Overseas posts were not always operating their TDY housing programs in accordance with A/FBO policy and procedures, and A/FBO's oversight was not effective in identifying noncompliance. Specifically,

- three posts operated TDY housing, including housing of questionable need, without obtaining A/FBO's approval;
- six posts did not obtain A/FBO approval of their TDY housing rates and charged rates that were lower than prescribed by the FAM; and
- A/FBO staff stated that most posts did not account for or manage TDY housing revenues and expenses in accordance with housing policy and did not prepare and submit to A/FBO annual summaries of TDY housing proceeds and operating expenses.

Operating unneeded TDY housing wastes funds, such as those used for lease, utility, and maintenance costs. Because posts did not charge rates commensurate with the costs of maintaining TDY housing, A/FBO could not recoup the costs of maintaining these units. For example, appropriate TDY rates would have permitted A/FBO to be reimbursed an additional \$31,480 at one post in 1 year. Selling unneeded government-owned TDY housing and dropping unneeded TDY housing leases would result in additional proceeds and cost savings.

Designating Residences for Temporary Duty Use

Three posts operated more TDY housing than A/FBO had authorized. (Embassies Abidjan and Bonn were excluded because Embassy Abidjan did not have TDY housing, and Embassy Bonn's TDY housing was leased directly by the employee association under a licensing agreement approved by A/FBO.) As a result, A/FBO unknowingly paid more costs for TDY housing than it had approved. Furthermore, its management controls--primarily its review of the REMS report and area manager visits--did not disclose the additional TDY housing.

The 6 FAM 726.1 specifies that posts must request prior authorization from A/FBO before operating TDY housing. TDY housing may be government-owned, long-term leased, or short-term leased, and is generally to be approved only if expected revenues cover all related expenses, such as maintenance, utility, and, in the case of short-term leased residences, lease costs. Certain government-owned or long-term leased residences may be designated as TDY housing, provided they are excess to the post's housing requirements or unsuitable for permanent housing. Revenues generated from TDY housing are to be credited to A/FBO through the Department's accounting system.

Embassy Santiago operated one short-term leased and eight government-owned TDY housing units even though A/FBO, at the time the post's housing profile was initially approved in September 1992, had authorized only five TDY housing units. A/FBO staff were unaware of the actual number of TDY housing units because post officials assigned incorrect property use codes (in REMS) to eight of the nine units; for example, one unit was coded as an office. Post staff stated that these government-owned residences could not be used as permanent housing because they needed a large effort to bring them up to standard. In addition, the regional security officer stated that the residences were outside the approved security zone. When we informed A/FBO of the number of TDY housing units, it instructed Embassy Santiago to properly identify them in REMS. These units were later sold.

Similarly, A/FBO authorized Embassy London in August 1992 to operate 6 TDY housing units. The embassy was actually operating 16 units. REMS identified only 7 of these units as TDY housing. The others were identified as residences available for permanent assignments. One reason for the unauthorized TDY housing is that 10 of the 16 were government-owned residences in Pastor Court that were considered by post to be unsuitable for permanent housing assignments. (Additional information about the Pastor Court residences is included in finding B.) Pastor Court has also been sold.

The three posts did not request authorization for the additional TDY housing units, and A/FBO's oversight of posts' TDY operations did not reveal the units' existence. Although Embassies Santiago and London incorrectly coded the units in REMS, Embassy Copenhagen's TDY housing units were correctly coded. A/FBO could have become aware of

the excess TDY housing either through review of REMS data or through area management officers' visits. However, A/FBO apparently never discerned from REMS that these units were vacant for long periods. Also, Embassy Santiago's area management officer's trip reports dated November 1991 and August 1994, Embassy London's area management officer's trip report dated March 1993, and Embassy Copenhagen's area management officer's trip reports dated May 1990 and February 1991, did not address TDY operations or mention the excess TDY housing. One of the principal functions of A/FBO area management officers is to monitor posts' activities to ensure that posts understand and comply with A/FBO policies and procedures.

A/FBO personnel stated that (1) if good hotels are available, posts have no reason to maintain TDY housing, (2) only a few locations exist where adequate hotels would not be available to individuals in official travel status, and (3) in only a few instances is TDY housing cost-effective. A/FBO personnel also stated that it is not in the business of providing TDY housing and that excess government-owned residences should be sold, where practical, instead of converted to TDY housing. All nine posts had adequate hotels available for official visitors. Because there did not appear to be a valid reason to keep the properties, the Department could generate additional funds by selling the government-owned properties.

Recommendation 22: We recommend that the Office of Foreign Buildings Operations (1) improve its oversight activities of TDY housing by requiring posts to specifically request authorizations and provide cost and occupancy documentation to justify the need for such housing, including the availability of suitable hotels, (2) require posts to sell TDY housing units not specifically authorized or needed, and (3) require TDY housing authorizations to be renewed biennially in conjunction with posts' housing profiles.

Recommendation 23: We recommend that the Office of Foreign Buildings Operations require its area managers to review the number of TDY housing and the number of actual TDY housing used by posts.

A/FBO stated that its comments to Recommendations 22, 23, and 25-28 are being coordinated with representatives of the ICASS program and are not included in this response. Its comments will be considered in the compliance process.

Recommendation 24: We recommend that Embassy London properly identify TDY housing in the Real Estate Management System.

Embassy London's response to the recommendation stated that when Pastor Court was sold, the post lost the capacity for transit use and had to utilize paid service apartments. Post requested A/FBO authorization for the designation of five government owned

apartments as TDY housing units, but A/FBO only authorized one apartment. Post did not indicate whether TDY housing has been properly identified in REMS.

Submitting Housing Rates for Approval

Six of the seven posts (that operated TDY housing) did not submit TDY rates for A/FBO approval as required by the FAM. Embassy Almaty was the only post that submitted the rates, which are intended to cover the cost of operating TDY housing. Except for Embassy Almaty, posts had neither requested A/FBO approval for initial TDY rates nor reported any rate changes. According to A/FBO officials, they did not approve posts' rates for TDY housing; they only instructed posts to charge a market rate. As a result, A/FBO did not recover the operating cost at one post for the housing as intended by the FAM, and it incurred excess costs of \$31,480 over a 1-year period.

The 6 FAM 726.2 requires A/FBO to approve the rates charged for TDY housing. TDY rates for short-term-leased units should cover the lease and utility costs. Rates charged for government-owned and long-term leased units should cover the costs of providing such housing, considering average utility, maintenance, and other operating costs. In neither case are the rates allowed to exceed the lodging portion of the per diem rate.

Some TDY housing units were operated at a loss, or at a larger loss than necessary, because occupants were not charged rates that fully covered the costs of providing such housing, up to the lodging portion of the per diem rate. Moreover, the embassies could not charge rates that fully covered operating costs because the rates exceeded allowed lodging costs for the areas. For example, Embassy Buenos Aires operated three short-term leased TDY housing units from January 1994 to August 1994. These units were seldom used and remained vacant during the first 4 months of the period. The occupancy rates ranged from 14 to 28 percent as shown in the following table.

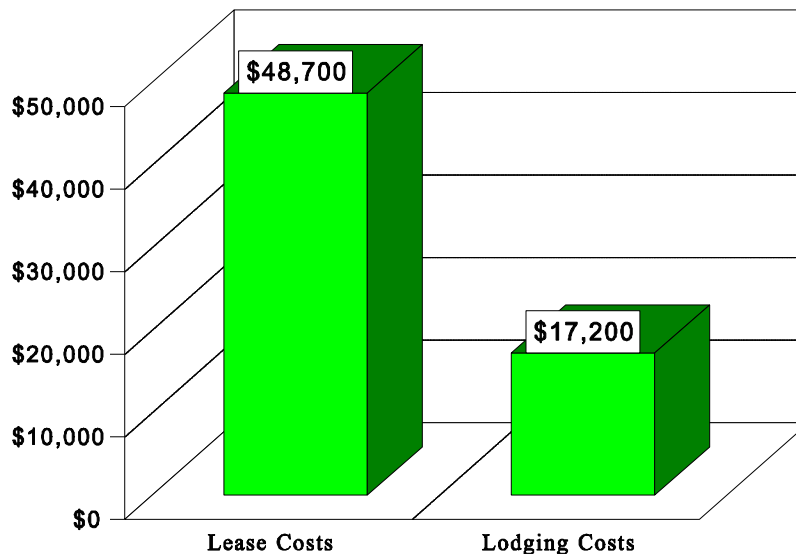
Month(s)	Days Occupied		
	Unit A	Unit B	Unit C
January - April	0	0	n/a ¹
May	12	30	n/a
June	21	21	0
July	9	n/a	0

¹ n/a - Not used as a TDY residence during the period identified.

August	17	n/a	13
Total	59	51	13
Occupancy Rate	24 %	28%	14%
Lease Costs	\$23,200	\$18,000	\$7,500

To recoup its lease costs, excluding utility and cleaning costs, post would have had to charge from \$393 to \$577 each day the units were actually occupied. For example, unit A had a lease cost of \$23,200 for 59 days use, an average of \$393 each day. As of September 1994, however, the maximum lodging portion of the per diem rate authorized by 6 FAM 726.2 was \$140 each day.

Excess TDY Costs



Lease costs for the three units totalled \$48,700. If TDY travellers had used hotels instead of the TDY housing units, the maximum costs that would have been incurred for lodging would have totalled only \$17,220 (\$140 for 123 nights of occupancy). By leasing the TDY housing units, the post incurred excess costs of \$31,480 (\$48,700 less \$17,220).

Embassy Montevideo also had not charged the appropriate rate for its government-owned TDY housing. The rate of \$15 per night, established in 1987, lacked any explanation of the costs covered, and only applied to non-official visitors and guests. Official visitors were not charged. Occupancy rates for the four TDY housing units from January to September 1994 were 27, 43, 71, and 78 percent.

Embassy London charged occupants a flat \$96 rate regardless of the length of stay, which covered only the cleaning costs at the end of the occupant's stay. As a result, the Department incurred additional costs because the rate excluded maintenance and utility costs. We were unable to determine how often the TDY housing units were used because the post's housing staff did not have information on the occupancy rates for the 16 TDY housing units.

Finally, Embassy Copenhagen charged \$55 per night for two short-term leased units. However, records did not exist to support how this rate was calculated or how often the units were used. Therefore, none of the six posts charged amounts that were properly computed as required by the FAM.

Recommendation 25: We recommend that the Office of Foreign Buildings Operations identify posts that have not submitted rates for TDY housing and require the posts to submit the rates for approval.

Managing Collected Funds

Although required by the FAM, none of the seven posts whose TDY housing was reviewed (1) accurately determined their TDY housing revenues, (2) provided A/FBO with annual summaries of revenues and expenses, or (3) deposited revenues into A/FBO's reimbursement account. (Embassy Almaty's TDY housing units had not been in operation long enough to provide an annual cost summary, Embassy Bonn's TDY housing units were leased directly by the employee association under a licensing agreement as approved by A/FBO, and Embassy Abidjan had no TDY housing). Without this information, A/FBO could not determine if it has been properly reimbursed for TDY housing costs.

Posts are required by 6 FAM 726.2 to (1) collect fees from people who use TDY housing, (2) deposit proceeds (revenues minus expenses) from TDY housing operations into an A/FBO reimbursement account, and (3) send A/FBO a summary of the revenues, expenses incurred, and proceeds deposited to A/FBO's account for each unit.

None of the six posts prepared the annual revenue and expense summary, and none of them could accurately determine their TDY housing revenues. For example:

- Embassy London's housing office had incomplete information on the amounts that it had collected for TDY housing. It knew the amount collected at the housing office, but did not know the amount collected after responsibility for collecting the charges had been shifted to another office.
- Embassy Montevideo's housing office records showed dates of occupancy. Financial records did not indicate if funds were deposited to A/FBO's account and were incomplete. Although the financial records showed that TDY charges had been collected from travellers for only three nights in 1994, housing office

records of actual occupancy rates ranged from 27 to 78 percent for its four TDY housing units during an 8-month period in 1994. The records were insufficient to determine if charges were collected and deposited into A/FBO's account.

Without the posts' annual summaries of proceeds and expenses, A/FBO cannot determine if it has been properly reimbursed for TDY housing expenses. The A/FBO reimbursement account includes many different types of income and collections. A/FBO personnel said that the funds go to a general account and that there is no mechanism to determine if posts have submitted proceeds from use of TDY housing. They also said that the posts have not submitted the required summaries.

Personnel from FMP also said that the 6 FAM 726.2 contains questionable guidance on reimbursement of TDY expenses. FMP staff questioned why posts should credit to A/FBO reimbursement for utilities, maintenance and repair, and building operating expenses that are funded from the salary and expense appropriation for short-term leased residences. In their opinion, regional bureaus should be reimbursed for these expenses to the extent possible, after A/FBO is reimbursed for lease costs. Additionally, some posts have been depositing the proceeds to an incorrect A/FBO account (19X6809) due to apparently conflicting advice in volume 6 of the Foreign Affairs Handbook, section 322.2-1, which states that funds over \$25 are to be deposited to the Suspense Deposit Abroad Account. After discussions with A/FBO staff and the OIG auditors, FMP sent an All Diplomatic and Consular Posts cable to instruct posts on the proper deposit of such funds.

Recommendation 26: We recommend that the Office of Foreign Buildings Operations remind posts (1) that fees are to be collected from people who use TDY housing, per 6 FAM 726.2, and (2) to establish and implement accounting controls over the TDY revenues, expenses, and proceeds.

Recommendation 27: We recommend that the Office of Foreign Buildings Operations determine why posts have not submitted annual summaries on TDY housing costs and receipts and develop and implement a system to ensure that posts submit the report.

Recommendation 28: We recommend that the Office of Foreign Buildings Operations, in conjunction with the Bureau of Finance and Management Policy, determine if TDY funds are being deposited to the appropriate accounts and, if warranted, issue appropriate guidance or clarify existing guidance to ensure that TDY funds are deposited to the proper account.

V. CONSOLIDATED LIST OF RECOMMENDATIONS

Recommendation 1: We recommend that the Office of Foreign Buildings Operations (1) review the executive level government-owned residences at Embassies London, Budapest, Buenos Aires, and Santiago and, if economically justified, direct the posts to dispose of any residences that are larger than needed, and (2) ensure that it routinely reviews large government-owned residences at other posts and disposes of residences that are larger than needed by the posts, when and if economically justified.

Recommendation 2: We recommend that the Office of Foreign Buildings Operations issue a reminder to all posts describing the two deviations from housing policy cited under "Misinterpretation or Misuse of Housing Standards" and reiterating that the new housing standards are to be used as the maximum space allowed, except in prescribed situations.

Recommendation 3: We recommend that the Office of Foreign Buildings Operations (1) instruct the post real property managers to provide an orientation to newly named housing board members on their responsibilities related to housing space and housing cost before they serve on a housing board, and (2) instruct area managers to determine, during their post visits, if such orientation is being given, whether it is considered adequate by board members and post officials (especially as related to personal requirements, employees' demands or requests, and cost considerations), and whether additional training or emphasis is warranted.

Recommendation 4: We recommend that the Office of Foreign Buildings Operations complete and issue the handbook recommended by the Strategic Management Initiative II Team, ensuring that it gives housing boards a better understanding of the relative importance of the factors involved in assigning a residence. At a minimum, we recommend that the guidance define "personal requirements" so that post officials and housing boards can differentiate between legitimate requirements and demands or requests that need not be honored, or need be honored only if they can be accommodated without incurring significant additional costs.

Recommendation 5: We recommend that the National Foreign Affairs Training Center include the information in Recommendation 4 in its Ambassadorial and Deputy Chief of Mission Seminars.

Recommendation 6: We recommend that the Office of Foreign Buildings Operations reevaluate the housing profile system to determine if and how posts can use it effectively to manage their housing inventories. Because our review did not disclose any large posts that were successfully using the profiles as intended, part of this reevaluation could be to identify and evaluate other large posts, if any, that are using the profile system successfully.

Recommendation 7: We recommend that, if the Office of Foreign Buildings Operations determines that the profile system can and should be used by overseas posts, it develop and provide additional guidance to post housing officers on how to use them in making housing assignments. Lessons learned could be developed from posts, if any, identified and evaluated under Recommendation 6.

Recommendation 8: We recommend that, if it determines that the profile system can and should be used by overseas posts, the Office of Foreign Buildings Operations identify posts that have not updated their housing profiles, either within 2 years of the date of approval of the current profiles or subsequent to significant staffing changes (such as downsizing), and specifically require these posts to update their profiles.

Recommendation 9: We recommend that the Office of Foreign Buildings Operations:

- establish controls to ensure that housing boards give appropriate consideration to cost in their housing decisions, especially those involving over-standard housing assignments, and
- more clearly define the roles and responsibilities of housing boards and housing officers in accomplishing housing objectives related to conducting cost-effective programs and holding down housing costs and revise volume 6, section 722.3, of the Foreign Affairs Manual, accordingly.

Recommendation 10: We recommend that the Office of Foreign Buildings Operations review the profile for Embassy London to determine if the embassy has improperly classified residences based on informal consideration of amenities rather than the requirements specified in the Foreign Affairs Manual. If Embassy London has improperly classified any residences, we further recommend that the Office of Foreign Buildings Operations undertake the necessary actions to correct the embassy's housing profile.

Recommendation 11: We recommend that, if the Office of Foreign Buildings Operations determines (in accordance with Recommendation 6) that the profile system is to be retained, it enhance the Real Estate Management System to provide an automated comparison of the housing inventory and the post profile so that Office of Foreign Buildings Operations' personnel and post housing staff can determine whether a post is within its profile.

Recommendation 12: We recommend that the Office of Foreign Buildings Operations establish and implement waiver standards consistent with the emphases on the personal and professional requirements of the employee and at a cost most advantageous to the government.

Recommendation 13: We recommend that the Office of Foreign Buildings Operations amend the area manager checklist to include reviews of real property manager certifications and housing board minutes to provide added assurance that posts are in compliance with the housing standards, including--if it determines (in accordance with Recommendation 6) that the profile system is to be retained--whether posts have updated their housing profiles when warranted, and reviews, on a sample basis, the accuracy of post reporting and the accuracy of the number and percentage of over-standard housing.

Recommendations 14-16: We recommend that Embassies Budapest, Buenos Aires, and Copenhagen establish and implement procedures to ensure that the annual certification by the real property manager is submitted annually with the appropriate information and retained as required. (Recommendation 14 - Embassy Budapest, Recommendation 15 - Embassy Buenos Aires, Recommendation 16 - Embassy Copenhagen).

Recommendation 17: We recommend that the Office of Foreign Buildings Operations (1) reevaluate the requirements for the single real property manager certification, (2) issue additional guidance on the concerns raised in this report regarding adherence to the housing policy and cost considerations, and (3) require the single property manager to certify that any acquisitions of residences complied with regulations, policies, and procedures.

Recommendation 18: We recommend that the Office of Foreign Buildings Operations review its approval process for both post profiles and waivers with an emphasis on controlling over-standard housing assignments.

Recommendation 19: We recommend that the Office of Foreign Buildings Operations develop performance measures to evaluate whether the overseas housing program is meeting the goals set forth in volume 6, section 720, of the Foreign Affairs Manual, including instructing posts to determine and track when posts acquired existing leased residences and when posts acquire future residences so that A/FBO can determine whether the post has been successful in stabilizing its housing inventory. If the information necessary to make this determination is not in the Real Estate Management System, the posts should add this data.

Recommendation 20: We recommend that the Office of Foreign Buildings Operations require that posts with a significant percentage of over-standard housing assignments establish goals for reducing this percentage and that these posts report on their goals and their progress periodically to the Office of Foreign Buildings Operations. One way to accomplish this is to require posts to identify over-standard residences at the end of the first and third quarters of the calendar year to show changes in the summer cycle.

Recommendation 21: We recommend that the Office of Foreign Buildings Operations develop and distribute to posts more definitive guidance for deciding whether an employee request to change residences in mid-tour should, or should not, be approved.

Recommendation 22: We recommend that the Office of Foreign Buildings Operations (1) improve its oversight activities of TDY housing by requiring posts to specifically request authorizations and provide cost and occupancy documentation to justify the need for such housing, including the availability of suitable hotels, (2) require posts to sell TDY housing units not specifically authorized or needed, and (3) require TDY housing authorizations to be renewed biennially in conjunction with posts' housing profiles.

Recommendation 23: We recommend that the Office of Foreign Buildings Operations require its area managers to review the number of authorized TDY housing and the number of actual TDY housing used by posts.

Recommendation 24: We recommend that Embassy London properly identify TDY housing in the Real Estate Management System.

Recommendation 25: We recommend that the Office of Foreign Buildings Operations identify posts that have not submitted rates for TDY housing and require the posts to submit the rates for approval.

Recommendation 26: We recommend that the Office of Foreign Buildings Operations remind posts (1) that fees are to be collected from people who use TDY housing, per 6 FAM 726.2, and (2) to establish and implement accounting controls over the TDY revenues, expenses, and proceeds.

Recommendation 27: We recommend that the Office of Foreign Buildings Operations determine why posts have not submitted annual summaries on TDY housing costs and receipts and develop and implement a system to ensure that posts submit the report.

Recommendation 28: We recommend that the Office of Foreign Buildings Operations, in conjunction with the Bureau of Finance and Management Policy, determine if TDY funds are being deposited to the appropriate accounts and, if warranted, issue appropriate guidance or clarify existing guidance to ensure that TDY funds are deposited to the proper account.

SPACE STANDARDS
(Maximum Allowable Net Square Feet)

Locality Level 1:

	Number of Occupants			
Level	1 or 2	3 or 4	5 or 6	7 or more
Executive ¹	1,700	2,146	2,465	2,592
Middle ²	1,296	1,870	2,188	2,316
Standard ³	1,168	1,700	1,976	2,103

Locality Level 2:

	Number of Occupants			
Level	1 or 2	3 or 4	5 or 6	7 or more
Executive	1,870	2,361	2,712	2,852
Middle	1,426	2,057	2,408	2,548
Standard	1,286	1,870	2,174	2,214

Locality Level 3:

	Number of Occupants			
Level	1 or 2	3 or 4	5 or 6	7 or more
Executive	2,057	2,597	2,983	3,137
Middle	1,568	2,263	2,648	2,803
Standard	1,414	2,057	2,391	2,546

¹ Includes Senior Foreign Service, Senior Executive Service, and military O-10 to O-7.

² Includes FS-1, FS-2, GS-13 - GS-15, and military O-5 and O-6.

³ Includes FS-3 - FS-9, GS-5 - GS-12, and military O-4 and below.

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Attachment

Office of Inspector General
Office of Audits
Administration of Government Housing
Draft Report of August 19, 1997

A/FBO would like to see the final report place emphasis on the intended purpose of housing profiles, i.e., to allow posts flexibility in assigning housing already approved in the profile, to employees with various ranks and family sizes, even though that housing may be "over-standard" for those specific occupants. Adhering to profiles can save money in related housing costs, including make-ready expenses, security upgrades, and beneficial lease terms, among others. Although the auditors did recognize this, they also indicated that posts could save "x" dollars by housing everyone within the standards. It is unclear from the report if the team factored out the over standard but within profile housing from its determination of specific cost savings. As the profiles are (or at least can be) significant factors in cost savings, it is important that the function of profiles be clearly stated and the savings properly attributed.

OIG Response: We agree with A/FBO's statement about the intended purpose of housing profiles and revised the report to provide the desired emphasis. The report does not estimate cost savings. Rather, it recognizes that over-standard housing assignments will frequently be necessary for numerous reasons, including retaining housing that is in the post's housing inventory and its profile, to save on make-ready costs, security costs, and beneficial lease terms. As a point of reference for potential savings through the reduction of over-standard housing assignments, the report provides a projection of what savings could hypothetically be if all assignments could be made within standards--an acknowledged impossibility from a cost effectiveness standpoint.

A/FBO routinely reviews its housing program and requires posts to document housing that is over-standard. In FY 1997, the Department formed a Real Property Advisory Board to make recommendations to A regarding Department properties identified for possible disposition. The A/FBO Director serves as the Executive Secretary for the Board. The has already met several times this year and recommended numerous properties for disposition. We note that posts generally resist disposing of larger residences, as higher-ranking Foreign Service Officers and agency heads often occupy them.

Page 21 notes that one in five assignments at the nine posts audited was "over standard." Under the profile system, there may indeed be families assigned to housing which

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is larger than their maximum authorization under 6 FAM 720, if the property was in the inventory and if there were no families of the right rank and size to occupy it. In many other instances, FBO has elected to retain, after deliberate consultation with the post, oversized houses which are USG-owned or long-term leased (USGO/LTL) because it was not economically or operationally advisable to dispose of them. Such circumstances should not be cited by the OIG as a deficiency in the program per se, and emphasis should be on improving the posts' documentation of the housing actions. (In fact, a general emphasis should be given throughout the report to recommendations that focus on improving the posts' documentation of the housing actions.)

OIG Response: We agree that A/FBO has elected to retain, after consultation with the post, oversized houses which are USG-owned or long-term leased because it was not economically advisable to dispose of them. These circumstances were not cited as a deficiency in the program per se, and on page 26 Recommendation 1 states that large government-owned residences should be disposed of if they are larger than needed by posts, when and if economically justified. In addition, the potential for cost savings that the report cites on page 21 was based on short-term leased residences.

Page 23, paragraph one, discusses the need for an A/FBO review of oversized USGO/LTL housing and disposal where warranted. This is A/FBO's policy and the review is on going, with formal requests for input sent to post each spring. Posts generally resist selling larger residences, which are usually occupied by higher ranking FSO's and Agency Heads. In the case of Athens, for example, post flatly refuses to sell a number of units as directed by A/FBO. These residences were recently considered by the Department's Real Property Advisory Board and the Board recommended the properties be sold. Post will be instructed to market the properties.

Page 25 and following, misses the point that we as a policy matter limit our flexibility in choosing housing in a local market--virtually all children attend an American School which is subsidized to some extent by the Embassy. Even in the United Kingdom and Australia, virtually all American Embassy children attend a single American School. Housing then falls into an axis between the Chancery and School. This situation is not going to change and OIG should recognize that it exists and will be a cost factor we must live with.

OIG Response: We disagree that the report misses the point regarding the importance of the location of the American School. In fact, the schools were mentioned to the audit team in London as an issue because of the large number of children with learning disabilities that attended special schools. However, although the location of the schools was important, it was never mentioned as the overriding issue that A/FBO's comments suggest. For example, in Budapest and Santiago, pollution was cited as a reason for the location of some housing. The OIG agrees that the school situation is not going to change and it will be a cost factor; however, that does not mean that over-standard residences must be leased but

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rather that, in some circumstances, the pool of available residences may be limited due to the location of the American School and result in an over-standard residence being assigned.

Page 26 (last bullet) mentions security criteria. Very little emphasis has been given to this in the past but in the last year, it has assumed great importance.

OIG Response: We agree that security criteria have assumed great importance in the past year but it was not a major issue during the time of the audit.

Page 63, end of first paragraph. The OIG criticizes one post for allowing a family to relocate mid tour to obtain housing with a larger yard for the children to play in. However, in the recent Amman inspection, the OIG told the post to find more housing for families with better yard play space; no mention was made of cost.

OIG Response: We agree that the Amman report, the July 1997 inspection report, recommended that the number of residences with access to yards be increased in the future so that children may have access to the yards. This audit report stated, on page 46 that some mid-tour changes of residences may not be justified and that as a result of the mid-tour changes of residence the Department may incur substantial costs, including administrative, security upgrade, and make-ready costs as well as repainting the residence. The Amman report cites a different situation and would not require the additional costs that are inherent in a mid-tour residence change.

Santiago. The draft report contains observations regarding Santiago. OIG comments are valid but do not take into account a number of contributing factors, the most important being a lack of continuity in post operations -- Santiago has had four Administrative Officers since 1995. The OIG's most serious concern was that government-owned properties were left vacant and short-term leased properties were rented instead. This is correct. Post Admin Officer in 1994 identified a number of government-owned properties as deteriorated and available for sale. A new Admin Officer arrived in 1995 and reversed this decision. As a result, A/FBO and post have renovated some units and sold the rest. A/FBO has been aware of the situation in Santiago, and both Area Management and Real Estate have worked closely with post on renovation and disposal issues.

OIG does not take into consideration the location of the International School, which is a 45-minute bus ride from the city center, where some government-owned housing is located. Post has chosen to locate families in free-standing rental houses near the International School to ease the transportation hardship on young students. Housing in its vicinity, as is the case in many developing countries, is somewhat large, which contributes to over standard housing. Post has been meticulous in requesting space waivers and rent ceiling waivers for over standard housing.

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OIG Response: We were not aware of the lack of continuity among administrative officers because the overseas portion of the audit work preceded the turnover. The major issue regarding housing, as told to the audit team in Santiago, was pollution, not the location of the school. We agree with A/FBO that housing is a complex issue, and proximity to the school is an important consideration.

Montevideo. The OIG should note that the post is in compliance with all A/FBO standards except that it did not charge a viable rate for its four government-owned transit apartments. A/FBO and post worked together to correct this situation in 1995 after it was identified by the OIG.

OIG Response: The audit report notes on page 21 that post had no over-standard housing both in the discussion and in the chart illustrating the over-standard housing.

Buenos Aires: Embassies Buenos Aires and Montevideo were commended for using their approved profiles when making housing recommendations and decisions. Embassy Buenos Aires was cited for allowing a senior representative to occupy a house 4,000 net square feet larger than the applicable standard. One suspects that this is the DATT house, which was consistently identified as over-standard. This house has been remeasured, the correct square footage is now in REMS, and the house is now within the profile.

OIG Response: The house cited is the DATT house. A/FBO officials stated that they believe that this house was originally erroneously measured in 1993 and correct measurements were not entered into REMS until after June 1997.

A/FBO was assigned most of the OIG recommendations regarding actions that take place at posts worldwide. We believe that greater emphasis should be given to the posts' responsibilities in administering a cost-effective housing program. While A/FBO can provide more guidance, and while regulations can be made tighter, posts still can choose to ignore them. Perhaps the OIG should consider wrapping many of these concerns in the Chief of Mission Annual Certification. By so doing, it will be more difficult for post to ignore the requirements and accountability will be clearly placed on the COM, at the operational level.

OIG Response: We agree that emphasis should be given to the posts' responsibilities in administering a cost-effective housing program. To this end, Recommendation 17 on page 43 has been amended, as suggested, to provide A/FBO additional flexibility in adding to the requirements of the single real property manager's annual certification to the chief of mission.

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We note that portions of the 6 FAM references used by the OIG in the report narrative are outdated. The Department's 6 FAM was updated and re-issued in 1996.

OIG Response: We agree, as A/FBO noted, that the 6 FAM references in the report have changed when the FAM was updated and re-issued. These citations have been updated.

The following is our response to each specific recommendation in the report directed to A/FBO.

Recommendation 1: We recommend that the Office of Foreign Buildings (1) review the executive level government-owned residences at Embassies London, Budapest, Buenos Aires, and Santiago and, if economically justified, direct the posts to dispose of any residences that are larger than needed, and (2) ensure that it routinely reviews large government-owned residences at other posts and disposes of residences that are larger than needed by the posts, when and if economically justified.

A/FBO Response: We agree. A/FBO will review the executive level government-owned residences, as noted, and, if economically justified, dispose of any residences that are larger than needed. A/FBO will also review large government-owned residences, as noted, and dispose of residences that are larger than needed by posts, when and if economically justified.

Recommendation 2: We recommend that the Office of Foreign Buildings Operations issue a reminder to all posts describing the two deviations from housing policy cited under "Misinterpretation or Misuse of Housing Standards" and reiterating that the new housing standards are to be used as the maximum space allowed, except in prescribed situations.

A/FBO Response: We agree. A/FBO will issue a reminder to all posts describing the two deviations from housing policy, as noted, and reiterate that the new housing standards are not to be used as the maximum space allowed, except in prescribed situations.

Recommendation 3: We recommend that the Office of Foreign Buildings Operations (1) instruct the post real property managers to provide an orientation to newly named housing board members on their responsibilities related to housing space and housing cost before they serve on a housing board, and (2) instruct area managers to determine, during their post visits, if such orientation is being given, whether it is considered adequate by board members and post officials (especially as related to personal requirements, employees' demands or requests, and cost considerations), and whether additional training or emphasis is warranted.

A/FBO Response: We agree. A/FBO is aware that some posts already provide an orientation informally, building on the reference materials provided in the Post Housing Handbook. Post

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could also require each new IAHB member to sign a statement indicating they attended the orientation session. The OIG could routinely verify these Statements, which would provide much needed support to post housing officers and single real property managers whose recommendations on housing assignments are too often ignored by IAHB. A/FBO will instruct the post real property managers, as noted, on their responsibilities related to housing space and housing cost before they serve on a housing board. Area Management Officers, during their post visits, will determine if such instruction is given and if it is considered adequate by board members and post officials, and; whether additional training or emphasis is warranted. The OIG could routinely verify the performance reviews of the IAHB with regard to adhering to cost and space standards in housing assignments. This would provide much needed support to post housing officers and single real property managers whose recommendations on housing assignments, as this present report notes, are too often ignored by the IAHB.

Recommendation 4: We recommend that the Office of Foreign Buildings Operations complete and issue the handbook recommended by the Strategic Management Initiative II Team, ensuring that it gives housing boards a better understanding of the relative importance of the factors involved in assigning a residence. At a minimum, we recommend that the guidance define "personal requirements" so that post officials and housing boards can differentiate between legitimate requirements and demands or requests that need not be honored, or need be honored only if they can be accommodated without incurring significant additional costs.

A/FBO Response: We agree. The handbook is in the final draft and clearance stage. Once the handbook is published, we will provide the Office of Inspector General a copy.

Recommendation 5: We recommend that the National Foreign Affairs Training Center include the information in Recommendation 4 in its Ambassadorial and Deputy Chief of Mission Seminars.

A/FBO Response: We recommend that the National Foreign Affairs Training Center include the information in recommendation 4 in its Ambassadorial and Deputy Chief of Mission Seminars.

Recommendation 6: We recommend that the Office of Foreign Buildings Operations reevaluate the housing profile system to determine if and how posts can use it effectively to manage their housing inventories. Because our review did not disclose any large posts that were successfully using the profiles as intended, part of this reevaluation could be to identify and evaluate other large posts, if any, that are using the profile system successfully.

A/FBO Response: We agree. We also note that other factors, including the Chief of Mission certification process, the sometimes conflicting roles for the housing board and for the real

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property manager, and the tendency for posts and constituent agencies to request headquarters to overturn waiver disapprovals, detract from the benefits of the profile system. A/FBO will reevaluate the housing profile system to determine if and how posts can use it more effectively to manage their housing inventories.

Recommendation 7: We recommend that, if the Office of Foreign Buildings Operations determines that the profile system can and should be used by overseas posts, it develop and provide additional guidance to post housing officers on how to use them in making housing assignments. Lessons learned could be developed from posts, if any, identified and evaluated under Recommendation 6.

A/FBO Response: We agree. If the profile system can be used by posts, A/FBO will develop and provide additional guidance to post housing officers on how to use the system in making housing assignments. Better application of the system will help significantly.

Recommendation 8: We recommend that, if it determines that the profile system can and should be used by overseas posts, the Office of Foreign Buildings Operations identify posts that have not updated their housing profiles, either within 2 years of the date of approval of the current profiles or subsequent to significant staffing changes (such as downsizing), and specifically require these posts to update their profiles.

A/FBO Response: We agree. A/FBO Real Estate Division continues to make significant efforts to review and update the profiles. If we determine that the profile system can and should be used by posts, we will ensure that all posts update their profiles accordingly.

Recommendation 9: We recommend that the Office of Foreign Buildings Operations:

- establish controls to ensure that housing boards give appropriate consideration to cost in their housing decisions, especially those involving over-standard housing assignments, and
- more clearly define the roles and responsibilities of housing boards and housing officers in accomplishing housing objectives related to conducting cost-effective programs and holding down housing costs and revise volume 6, section 722.3, of the Foreign Affairs Manual, accordingly.

A/FBO Response: We agree. Although there are some issues at post that create obstacles to implementation, such as division of authority and, the fact that costs for short-term leases are financed by the individual agencies and outside the Department's, A/FBO will seek to establish controls to ensure that housing boards give appropriate consideration to cost in their housing decisions, especially those involving over-standard housing assignments. We will also more clearly define the roles and responsibilities of housing board and housing officers in

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accomplishing housing objectives related to conducting cost-effective programs and holding down housing costs. This will no doubt require changes to 6 FAM.

Recommendation 10: We recommend that the Office of Foreign Buildings Operations review the profile for Embassy London to determine if the embassy has improperly classified residences based on informal consideration of amenities rather than the requirements specified in the Foreign Affairs Manual. If Embassy London has improperly classified any residences, we further recommend that the Office of Foreign Buildings Operations undertake the necessary actions to correct the embassy's housing profile.

A/FBO Response: We agree. A/FBO will review Embassy London's housing profile, as noted. If we determine that residences are improperly classified, we will initiate necessary actions to correct the Embassy's housing profile.

Recommendation 11: We recommend that, if the Office of Foreign Buildings Operations determines (in accordance with Recommendation 6) that the profile system is to be retained, it enhance the Real Estate Management System to provide an automated comparison of the housing inventory and the post profile so that Office of Foreign Buildings Operations' personnel and post housing staff can determine whether a post is within its profile.

A/FBO Response: A/FBO already has in place an automated system to compare housing inventory and post profile. The next step is to provide software to posts, either through a new automated property system (to replace REMS) now under consideration or by separate "add on".

Recommendation 12: We recommend that the Office of Foreign Buildings Operations establish and implement waiver standards consistent with the emphases on the personal and professional requirements of the employee and at a cost most advantageous to the government.

A/FBO Response: We believe that existing 6 FAM 730 standards are sufficient for A/FBO to manage the program. The standards are also consistent with the emphasis on the personal and professional requirements of the employee at a cost most advantageous to the Department. Indeed, the comment that "A/FBO has not developed any guidance or standards to use as a basis for approving or denying waiver requests." shows a lack of understanding of 6 FAM 734-735. A/FBO established effective controls to the point where post does not have the authority to routinely approve deviations to their housing profile. These controls include coming to A/FBO for: approvals for short-term leases with rentals in excess of \$25,000; approvals of leases exceeding space standards; approvals for advance lease payments, leases with offshore payments, and/or payments in other than local currency, among others. A/FBO is not in a position to verify all the data sent in by post to justify approval of an exception to standards. Action for inaccuracies identified at post by the auditors should be handled by post

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management. Posts must justify and document their requests for approval of deviations to existing housing standards.

Stringent procedures are established for post to follow (and document) prior to sending a request to A/FBO for approval of an over-standard residence. A/FBO has determined that there are only three reasons a post may exceed space standards. For example, 6 FAM 735.2, Waivers of Leases Exceeding Space Standards (for residential properties), has three criteria that A/FBO reviews prior to granting post the authority to exceed space standards: (1) the only available housing exceeds space standards and the property has not been approved for inclusion in post's already existing housing profile (new employee position or acquired to replace an existing lease; and (3) when the employee's official representational duties would be adversely affected (in these cases, such requests must be approved and documented by the post's Single Real Property Manager, the Inter-Agency Housing Board, and Chief of Missions, prior to being considered by A/FBO. What additional requirements would the auditors add?

Short of political considerations, all of this information is considered by A/FBO when approving or disapproving a post's request to exceed standards for residential leases. The 97% approval rate should be seen by the auditors as something positive and as an affirmation of the effectiveness of the controls established by the Department to manage the program.

Recommendation 13: We recommend that the Office of Foreign Buildings Operations amend the area manager checklist to include reviews of real property manager certifications and housing board minutes to provide added assurance that posts are in compliance with the housing standards, including--if it determines (in accordance with Recommendation 6) that the profile system is to be retained--whether posts have updated their housing profiles when warranted, and reviews, on a sample basis, the accuracy of post reporting and the accuracy of the number and percentage of over-standard housing.

A/FBO Response: A/FBO agrees that reviews of the areas described in this recommendation are appropriate for Area Management Officers (AMO) to undertake as part of the range of areas they review during post visits. However, it would be inadvisable for mid-level AMO's to carry such a review to the point of attempting to validate or contest the certification of the real property manager. An AMO may be expected to not problems areas, but should not make judgements about a Chief of Mission's certification as to compliance with housing standards. If OIG intends for that certification to come under scrutiny, that scrutiny should be undertaken separately by a well-staffed team lead by a senior individual. The OIG should supplement this recommendation by ensuring that annual Chief of Mission Certification instructions provide more detail and guidance.

Recommendation 17: We recommend that the Office of Foreign Buildings Operations issue additional guidance on the requirements for real property manager annual certification to

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ensure that the property manager certifies that the acquisition of residences complies with regulations, policies, and procedures.

A/FBO Response: We agree that annual certifications by the real property manager and by the Chief of Mission are important. A/FBO will issue additional guidance, as noted.

Recommendation 18: We recommend that the Office of Foreign Buildings Operations review its approval process for both post profiles and waivers with an emphasis on controlling over-standard housing assignments.

A/FBO Response: A/FBO has a process to analyze and control waivers and profiles. The problem lies in the issues of authority, competition, and in posts lack of budget authority for leases, an issue not addressed in the OIG report. We agree, however, that the process can be reviewed. For example, a review during this past year streamlined headquarters effort and improved control. Emphasis will now be placed on empowering posts to manage better.

Recommendation 19: We recommend that the Office of Foreign Buildings Operations develop performance measures to evaluate whether the overseas housing program is meeting the goals set forth in volume 6, section 720, of the Foreign Affairs Manual, including instructing posts to determine and track when posts acquired existing leased residences and when posts acquire future residences so that A/FBO can determine whether the post has been successful in stabilizing its housing inventory. If the information necessary to make this determination is not in the Real Estate Management System, the posts should add this data.

A/FBO Response: We agree. Determining and evaluating performance measures is our next goal in the housing program. We plan to move forward on this effort in calendar year 1998.

Recommendation 20: We recommend that the Office of Foreign Buildings Operations require that posts with a significant percentage of over-standard housing assignments establish goals for reducing this percentage and that these posts report on their goals and their progress periodically to the Office of Foreign Buildings Operations. One way to accomplish this is to require posts to identify over-standard residences at the end of the first and third quarters of the calendar year to show changes in the summer cycle.

A/FBO Response: We agree. Posts should be accountable for its over-standard inventory. This is addressed reasonably well for housing for which waiver requests are submitted but not for over-standard Government-owned and long-term leased residences. A/FBO will require posts to establish goals for reducing any identified significant percentage of over-standard housing assignments, where applicable, and; to report the existence of these residences twice annually, as noted.

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Recommendation 21: We recommend that the Office of Foreign Buildings Operations develop and distribute to posts more definitive guidance for deciding on whether an employee request to change residences in mid-tour should, or should not, be approved.

A/FBO Response: We partially agree. Posts should be empowered to make decisions regarding mid-tour moves based on budget authority and the clarity of having true consequences of their decisions. A/FBO will develop and distribute guidance to posts as noted.